

CBO

Approaches for
Scaling Back the
Defense Department's
Budget Plans



MARCH 2013

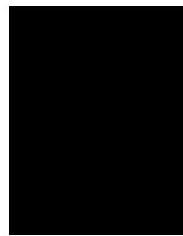
Report Documentation Page			Form Approved OMB No. 0704-0188	
<p>Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p>				
1. REPORT DATE MAR 2013	2. REPORT TYPE	3. DATES COVERED 00-00-2013 to 00-00-2013		
4. TITLE AND SUBTITLE Approaches for Scaling Back the Defense Department's Budget Plans			5a. CONTRACT NUMBER	
			5b. GRANT NUMBER	
			5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)			5d. PROJECT NUMBER	
			5e. TASK NUMBER	
			5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Budget Office,Ford House Office Building, 4th Floor ,Second and D Streets, SW ,Washington,DC,20515-6925			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)	
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited				
13. SUPPLEMENTARY NOTES				
14. ABSTRACT				
15. SUBJECT TERMS				
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 48
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified	19a. NAME OF RESPONSIBLE PERSON	

Notes

Unless otherwise indicated, all years referred to in this study are federal fiscal years (which run from October 1 to September 30) and all costs apply to fiscal years. Those costs are expressed in 2013 dollars to remove the effects of inflation, unless otherwise specified.

Numbers in the text, figures, and tables may not add up to totals because of rounding.

On the cover: An aerial view of the Pentagon, September 2002. Photograph by Technical Sergeant Angela Stafford, U.S. Air Force.



Contents

Summary	1	
1	The Budget Control Act's Spending Limits for DoD and the Costs of DoD's Plans	7
	Funding Under the Budget Control Act from 2013 to 2021	7
	Projected Cost of DoD's 2013 Plan	10
	Major Elements of DoD's Budget	12
2	General Approaches to Reducing DoD's Costs	17
	Reduce Force Structure	18
	Reduce Funding Without Reducing Force Structure	20
3	Combinations of Approaches That Would Comply with the Funding Limits	31
	Option 1: Preserve Force Structure; Cut Acquisition and Operations	32
	Option 2: Cut Acquisition and Operations; Phase in Reductions in Force Structure	34
	Option 3: Achieve Savings Primarily by Reducing Force Structure	38
	Option 4: Reduce Force Structure Under a Modified Set of Budget Caps	40
	List of Tables and Figures	42
	About This Document	43



Summary

In 2013, the Department of Defense (DoD) faces an 11 percent reduction (after adjusting for inflation) in its base budget from the amount it received in 2012.

(The base budget funds the department's normal activities but excludes overseas military operations like those in Afghanistan.) Under current law, the department's budgets will increase by a cumulative total of 2 percent more than inflation between 2013 and 2021, still well below its funding in 2012 in real (inflation-adjusted) terms.¹ Those limits are mandated by the Budget Control Act of 2011 (BCA), which capped annual funding for defense and nondefense agencies during that period.

The reduction in 2013, however, follows a period of generally increasing real resources for DoD; from 2001 to 2010, funding for the department's base budget rose by more than 40 percent, after adjusting for inflation. In real terms, after the reduction in 2013, DoD's base budget is about what it was in 2007 and is still 7 percent above the average funding since 1980.

The Congressional Budget Office (CBO) analyzed the cost of implementing DoD's plans (as presented in its 2013 budget request and related planning documents) and examined general approaches that the department might take to comply with the budget caps. CBO found that:

- The cost of implementing DoD's plans through 2021 would exceed the funding allowed under the budget caps by a large margin;
- DoD will have to cut back on its forces and activities more each year to remain within the budget caps; and

1. Unless otherwise indicated, all costs in this report are expressed in 2013 dollars to remove the effects of inflation and all years referred to are federal fiscal years.

- Policymakers could reduce costs by cutting the number of military units, funding to equip and operate the units, or both.

CBO examined four broad options for modifying DoD's plans to align projected costs with the available funding.

The Costs of DoD's Plans Would Be Much Higher Than the Funding Permitted Under the Budget Caps

The BCA initially created a set of caps that limited funding for discretionary programs and activities for each year over the 2012–2021 period. That act also established procedures that led to automatic spending reductions, which lowered those initial caps for the years 2014 to 2021 and cut funding for 2013 through a process known as sequestration. The reduction in 2013 limits DoD's base budget to \$478 billion in that year, in CBO's estimation. Thereafter, the caps will allow DoD's funding to increase by an average of about 2 percent per year through 2021, reaching \$563 billion in nominal (current-dollar) terms. In inflation-adjusted terms, however, DoD's base budget is allowed to grow very little, rising to only \$489 billion in 2013 dollars by 2021, which represents *cumulative* growth of 2 percent over that period, or an average annual growth rate of 0.3 percent.

How will those limitations affect DoD's ability to execute its plans as described in its 2013 Future Years Defense Program (FYDP)? To estimate the reductions that DoD will have to make to comply with the BCA, CBO developed two projections of the cost of implementing the department's plans through 2021. One, the *FYDP-based cost projection*, is based on cost assumptions incorporated in DoD's 2013 FYDP, which was released in March 2012 and spans the years 2013 through 2017, and CBO's extrapolation of those figures from 2018 through 2021. The other, called *CBO's cost projection*, is based on the

Summary Table 1.**Projected Costs of DoD's Plans Compared With Funding Limits Established by the BCA**

(Billions of dollars)

DoD's Estimated Funding Under the BCA After Automatic Reductions ^a Annual Average	Costs Under CBO's Cost Projection ^b		Costs Under the FYDP-Based Cost Projection ^c	
	Annual Average	Reduction to Satisfy the BCA (Percent)	Annual Average	Reduction to Satisfy the BCA (Percent)
	Nominal Dollars			
2013 to 2017	491	567	545	10
2018 to 2021	544	669	617	12
2013 to 2021	514	612	577	11
2013 Dollars^d				
2013 to 2017	476	550	529	10
2018 to 2021	487	598	552	12
2013 to 2021	481	572	539	11

Source: Congressional Budget Office.

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

- a. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- b. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- c. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP (issued in March 2012) and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- d. Nominal dollars were converted to 2013 dollars using CBO's projection of the gross domestic product price index.

agency's estimates of cost factors and growth rates that reflect DoD's actual experience and Congressional policy decisions in recent years.

DoD's plans call for base budgets averaging \$529 billion a year through 2017 (in 2013 dollars). Those estimates are within 1 percent of the initial funding caps set by the BCA when it was originally enacted.² But under the tighter limits resulting from the automatic spending reductions, funding for DoD's base budgets cannot exceed an average of \$476 billion annually through 2017 (in 2013 dollars), about 10 percent less than the department projected in its plans (see Summary Table 1).³ Thus, by its own estimates, DoD will have to

significantly cut back on its plans to comply with the funding limits.

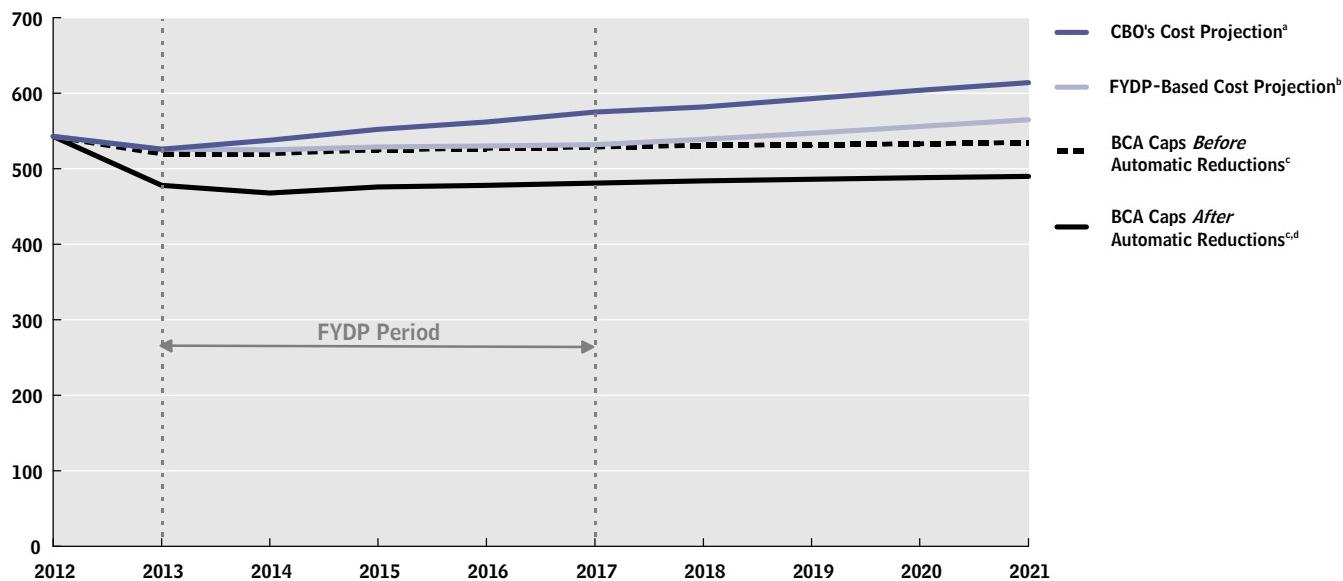
Moreover, the department's estimates reflect the assumption that it will be able to slow the growth in costs it has experienced in recent years for military health care, military and civilian compensation, peacetime operations, and the acquisition of weapon systems. In contrast, on the basis of DoD's historical experience, CBO anticipates that implementing the department's plans would cost an average of \$550 billion a year from 2013 through 2017, or \$21 billion per year more than DoD's estimate. If CBO's estimate is correct, funding for DoD over that

2. The funding caps apply to a budget category, national defense, that is somewhat broader than just DoD's budget. Since 2002, DoD's annual base budgets have accounted for 95.5 percent of national defense funding. In its analysis, CBO assumed that share would continue through 2021.

3. DoD has yet to release its budget request for 2014, its associated FYDP that will extend through 2018, or updates to any other long-term plans that extend through 2021. Unless the cost of those plans differs significantly from the cost of last year's plans, the magnitude of the cuts that DoD will have to make to comply with the act will be about the same as described in this report.

Summary Figure 1.**Projected Costs of DoD's Plans Compared with the BCA Caps**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP (issued in March 2012) and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- d. The automatic enforcement provisions do not establish a lower cap in 2013; instead, spending is reduced by sequestering (canceling) funding that has already been appropriated for that fiscal year. The amount shown for 2013 is CBO's estimate of the funding available in DoD's base budget after sequestration.

period will be about 13 percent less than the cost of implementing the department's plans.

DoD Will Have to Cut Back on Its Forces and Activities More Each Year to Remain Within the Budget Caps

Because the inflation-adjusted costs of DoD's plan will rise over time much more rapidly than the budget caps will, the reductions that DoD will have to make relative to its 2013 plan to comply with the caps will be larger in later years (see Summary Figure 1). From 2018 through 2021, the caps will be about 12 percent below an extrapolation of DoD's five-year plan and 19 percent below CBO's projection of the cost of that plan.

Relative to the forces and activities it can sustain in 2013 (which already reflect funding that is 9 percent less than the budget request for that year), DoD will have to cut back a little more (or find additional efficiencies) every year through 2021 to remain within the caps, primarily because the costs of providing compensation and acquiring weapon systems will grow faster than the rate of increase in the caps.

To Reduce Costs, Policymakers Could Reduce the Number of Military Units or Funding to Equip and Operate Those Units or Both

To lower DoD's costs, policymakers could reduce the number of military units it fields, reduce funding for

acquiring equipment and for operations, or adopt some combination of those two approaches, with the following broad implications:

- *Reducing the number of military units fielded* would allocate reductions across most of DoD's budget. Units that remained in the force would continue to be funded at levels that have produced today's highly capable forces. However, having fewer such forces might jeopardize the military's capacity to respond to multiple conflicts simultaneously or to prolonged conflicts without requiring long overseas deployments for service members.
- *Reducing the funding for equipping and operating military units* would maintain the size of the force at planned levels, but the lower funding might result in fewer or delayed purchases of new weapons, decreased peacetime operations, less training, and a greater focus on operating efficiently. Such measures might affect the U.S. military's superiority in areas such as advanced weaponry and comprehensive training, and might constrain peacetime operations.

CBO examined four broad options that policymakers could adopt that would bring DoD's budget into compliance with the BCA—each involving different combinations of force reductions and cuts to acquisition and operations. The options are illustrative; other combinations tailored to specific strategies would be possible (and, indeed, might be preferred). CBO assumed that, in reducing the number of combat units, DoD would trim the same proportion from support units and overhead; if DoD could not make proportional reductions, more combat units would need to be eliminated to achieve the required reductions. In all four options, the cuts would be larger in 2021 than in 2013 because the costs of implementing DoD's plans would increase faster than the funding allowed under the BCA.

The effect of such reductions on national security is beyond the scope of this paper. Although these options would represent a significant scaling back of DoD's plans, U.S. military forces have substantial technological and operational advantages over those of other nations today. Therefore, policymakers may find it acceptable for the United States to reduce the size of its military as a decade of overseas conflicts draws to a close. Notwithstanding the direct costs of those conflicts that were largely funded from emergency and supplemental appropriations, DoD's

base budget in 2012 was substantially larger in real terms than in 2001. Even at their deepest in 2014, the cuts from the BCA will return DoD's budget to where it stood in real terms in 2006, still 25 percent above the department's funding in 2000.

Option 1: Preserve Force Structure; Cut Acquisition and Operations

Under this option, policymakers would preserve the size of U.S. military forces but reduce funding for acquisition and operations.⁴ Implementing this option would result in 13 percent cuts in funding for acquisition and operations in 2013. Funding for military compensation would remain as projected. Because the cost of DoD's plan would increase in subsequent years, the required reductions would be greater in 2021: They would reach 31 percent relative to CBO's cost projection and 20 percent relative to the FYDP-based cost projection.

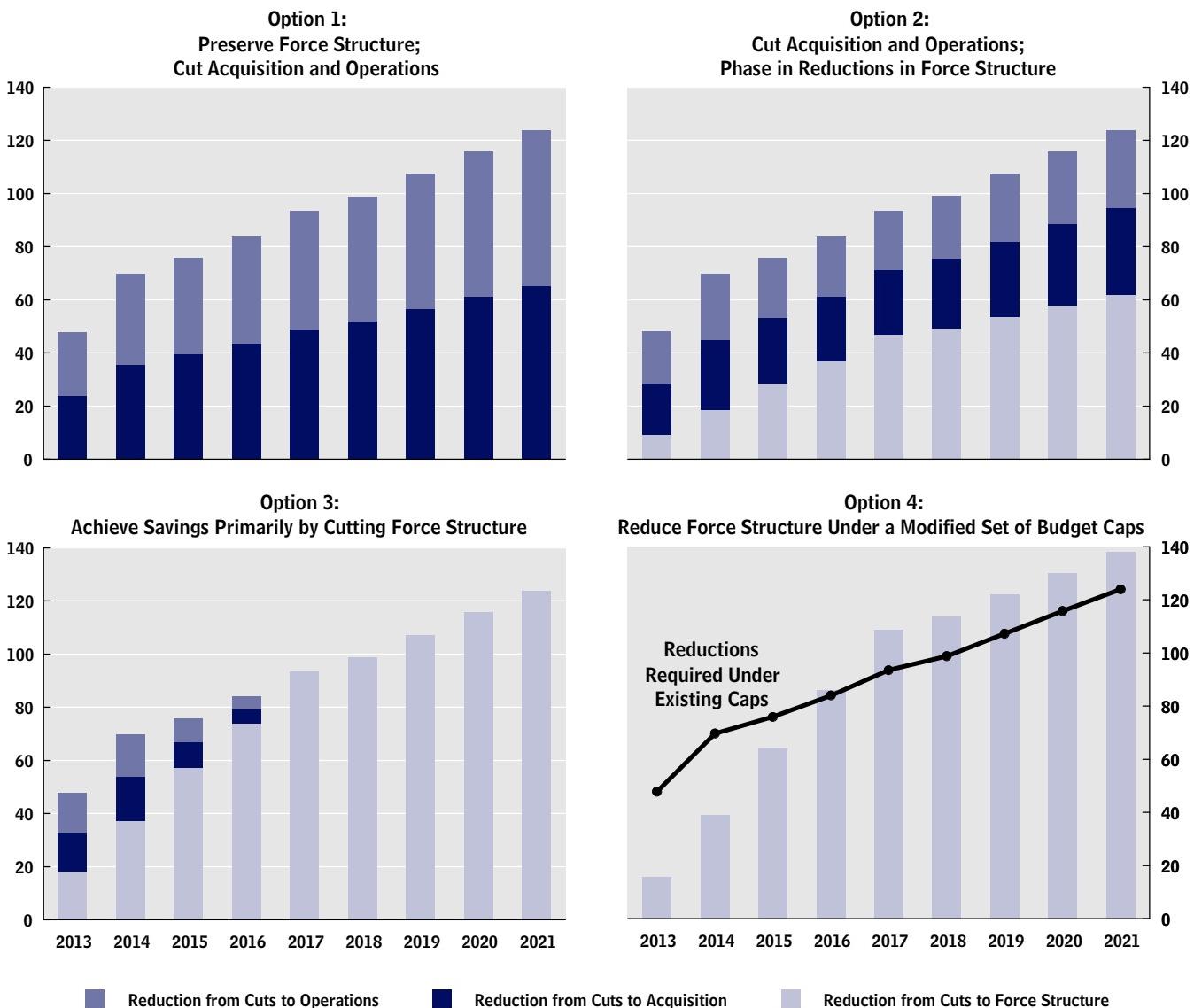
Option 2: Cut Acquisition and Operations; Phase in Reductions in Force Structure

Under Option 2, policymakers would achieve half of the reduction after 2017 by cutting forces and half by reducing funding for acquisition and operations for the remaining forces (see Summary Figure 2). CBO assumed that the force reductions would be phased in over five years, similar to the force cuts already planned in the FYDP. The reductions in forces would lower military compensation and operations costs by a combined 11 percent and acquisition costs by 8 percent in 2021 relative to CBO's cost projection. If cuts were spread evenly across DoD's four military services and among both full-time (active) units and part-time (reserve) units, those reductions might include, for example, the following: 7 Army brigade combat teams, or BCTs (out of a planned force of 66); 28 major warships (out of a planned force of about 244); 2 Marine regiments (out of a planned force of 11); and 11 Air Force fighter squadrons (out of a planned force of about 93) by 2021. (Today, the Army has 73 BCTs, the Navy 214 major warships,

4. For this report, CBO divided DoD's funding into three broad budget categories: military compensation (funding for military personnel, family housing, and military health care); acquisition (funding for research, development, test, and evaluation, and for procurement and military construction); and operations (funding for operation and maintenance, excluding military health care, as well as working capital and revolving funds). Military construction is not typically thought of as part of DoD's funding for acquisition. However, among CBO's major budget categories, it fit best in acquisition.

Summary Figure 2.**Sources of Reductions from CBO's Projection of the Costs of DoD's Plans Under Four Options**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Notes: CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.

DoD = Department of Defense.

the Marines 11 regiments, and the Air Force about 90 fighter squadrons.⁵ Reductions in similar proportions

5. Major warships include aircraft carriers, surface combatants, amphibious ships, and submarines. Air Force unit numbers are based on aircraft inventories divided into notional 12-aircraft squadrons.

would be made to the other types of units in each service. Cuts would be about one-third smaller under the FYDP-based cost projection.

DoD would be able to keep more units in total (but fewer active units) than indicated in this option if it shifted active units to the reserves. Alternatively, DoD might be

able keep more active units by making use of an approach called tiered readiness, whereby some units—those not expected to be deployed immediately in the event of a conflict—would be allowed to fall to lower readiness standards in order to reduce costs.

Until the force reductions were phased in, acquisition and operations funding for all forces would bear the brunt of the cuts. By 2021, funding for acquisition and operations for the military units that would remain in the force would be reduced by 15 percent relative to DoD's plans under CBO's cost projection and by about 10 percent under the FYDP-based cost projection.

Option 3: Achieve Savings Primarily by Cutting Force Structure

Under this option, policymakers would adhere to the BCA limits primarily by cutting force structure below its planned levels. Until the force reductions were fully phased in, additional cuts to acquisition and operations would be made to stay within the BCA limits from 2013 through 2016. The cuts in force structure would yield a combined 23 percent reduction in military compensation and operations costs and a 15 percent reduction in spending for acquisition in 2021 relative to CBO's cost projection. Applied proportionally, the reductions could

include 16 Army BCTs, 51 major warships, 3 Marine regiments, and 22 Air Force fighter squadrons, roughly twice the size of the reductions under Option 2. Cuts would be smaller—about 15 percent for military compensation and operations and 10 percent for acquisition in 2021—under the FYDP-based cost projection.

Option 4: Reduce Force Structure Under a Modified Set of Budget Caps

Under this option, the BCA would be modified so that the automatic spending reductions could be phased in more slowly; however, the same total reduction to DoD's funding (in 2013 dollars) would be achieved with larger reductions in later years than under Option 3. Policy-makers would adhere to those modified budget caps entirely by cutting force structure. Spread evenly, the cuts could include 18 Army BCTs, 58 major warships, 3 Marine regiments, and 25 Air Force fighter squadrons. U.S. forces would be about 4 percent smaller than those under Option 3. Under CBO's cost projection, funding for military compensation and operations would be reduced by about 25 percent and acquisition by about 17 percent in 2021. Cuts would be smaller—about 18 percent for military compensation and operations and 11 percent for acquisition by 2021—under the FYDP-based cost projection.

The Budget Control Act's Spending Limits for DoD and the Costs of DoD's Plans

The Budget Control Act of 2011 (BCA) imposed caps on annual appropriations for defense from 2013 through 2021; it also established procedures that led to automatic spending reductions, which took effect at the beginning of March 2013. Those caps, as modified by the automatic spending reductions, mean that the Department of Defense (DoD) will need to operate with a base budget that is substantially lower in real terms than was the case in 2010, when such funding reached its peak. (It had grown by more than 40 percent from 2001 to 2010 in real terms.) Under the BCA, DoD's base budget (after adjusting for inflation) will fall to about the amount that the department received in 2007 and remain essentially flat over the nine-year period during which the BCA caps are in effect (see Figure 1-1).

To assess the impact of the BCA's limits on defense spending, the Congressional Budget Office (CBO) compared those limits with the projected cost of DoD's plans as they were described in the department's 2013 budget request, the 2013 Future Years Defense Program (FYDP), and supporting documents.¹ To measure that impact, CBO developed two projections of the costs of DoD's plans—one that reflects the kinds of cost increases incurred by DoD's programs in the past, and another that is based on the cost assumptions underlying the department's FYDP.

Funding Under the Budget Control Act from 2013 to 2021

The BCA did not set specific limits on funding for DoD. Rather, the act created an initial set of annual caps for

2013 through 2021 on discretionary appropriations related to national defense—specifically, appropriations in budget function 050.² That category encompasses funding for DoD (by far the largest part) as well as for the Department of Energy's nuclear weapons programs and a few national security activities performed by other departments.³

In addition to establishing initial caps on appropriations for budget function 050, the BCA mandated automatic spending reductions that would be triggered if \$1.2 trillion in deficit reduction was not accomplished through a process initiated by a special Joint Select Committee on Deficit Reduction. That committee did not produce any legislation, so the automatic reductions have been implemented.

Under those automatic reductions, national defense funding for 2013 was originally set to be reduced by \$55 billion through sequestration—across-the-board cuts from the funding provided pursuant to the initial cap set for that year—beginning on January 1, 2013. From 2014 through 2021, the caps would be lowered by \$55 billion each year (compare the first and third rows in Table 1-1). The American Taxpayer Relief Act of 2012 subsequently trimmed the amount that would be sequestered in 2013

1. The 2013 FYDP was released in March 2012. It comprises a historical record of DoD's forces and funding as well as its plans for the future. The historical portion of the FYDP shows costs, forces, and personnel levels since 1962. The plan portion presents DoD's estimates of the funding needed for the next five years, based on the department's current plans for all of its programs.

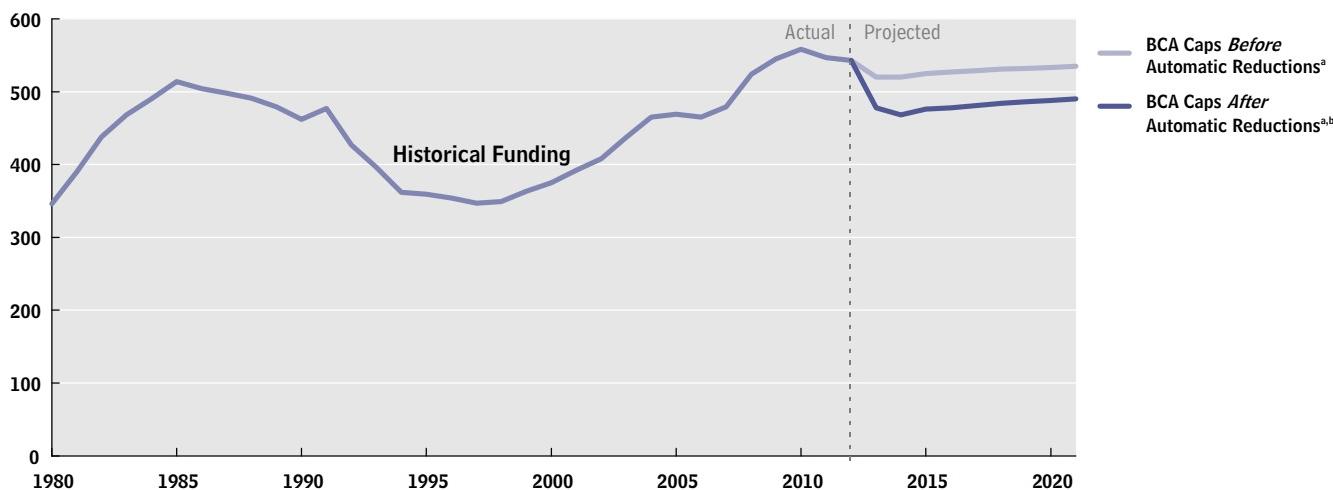
2. The act also established a parallel set of caps for discretionary appropriations for nondefense activities.

3. For the purposes of organizing the budget, federal spending is grouped into 20 general subject categories—referred to as budget functions—so that all budget authority and outlays can be presented according to the national interests being addressed. Budget function 050 (national defense) encompasses primarily the military activities of DoD; the activities of the Department of Energy and the National Nuclear Security Administration involving nuclear weapons; the national security activities of several other agencies, such as the Selective Service System; and some of the activities of the Coast Guard and the Federal Bureau of Investigation.

Figure 1-1.

Past Funding for DoD's Base Budget and the Effect of the BCA Caps on Projected Funding

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012.

- a. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- b. The automatic spending reductions did not establish a lower cap in 2013; instead, spending will be reduced by sequestering (canceling) funding already appropriated for that fiscal year. The amount shown for 2013 is CBO's estimate of the funding available in DoD's base budget after sequestration.

from appropriations for national defense to \$43 billion and delayed the start of that reduction until March 1; it also lowered by \$4 billion the cap for 2014. Those changes are incorporated in the figures cited in this study (see the first row in Table 1-1). The automatic reductions scheduled for 2014 to 2021 did not change.

The Office of Management and Budget has indicated that, for 2013, \$41 billion of the \$43 billion reduction in funding for national defense applies to DoD's budget. For the years 2014 through 2021, CBO estimated the amount of funding that will be available to DoD under the BCA caps on the basis of the department's historical share of appropriations for budget function 050. Specifically, CBO assumed that the share of capped funding allocated to DoD from that budget function will remain similar to the share provided in the recent past—an average of 95.5 percent over the past 10 years, excluding funding for overseas contingency operations (see the second row in Table 1-1). Hence, DoD's share of the automatic reductions is estimated to be about \$53 billion per year over the 2014–2021 period.

The BCA's automatic spending reductions set DoD's base budget at \$478 billion in 2013, in CBO's estimation; the limit will increase by about 2 percent per year thereafter, to \$563 billion by 2021 (see the fourth row in Table 1-1).⁴ Those limits are defined in nominal, or current-dollar, terms. However, describing funding in real, or constant-dollar, terms—that is, with adjustments

4. Estimating the size of DoD's base budget for 2013 is complicated by the fact that appropriations for the war in Afghanistan and balances from 2012 and prior years that have yet to be obligated are both subject to reductions under sequestration (along with appropriations for DoD's base budget). If defense appropriations for the base budget in 2013 equal \$544 billion—the starting point referenced in the American Taxpayer Relief Act for calculating the amount sequestered from defense—and DoD receives 95.5 percent of that amount, and if the reductions from sequestration are applied entirely to the base budget, CBO estimates, the department will have \$478 billion in base-budget funding for 2013. CBO used that number in this analysis on the assumption that DoD will not cut back on operations in Afghanistan over the next six months, relative to planned levels, in order to implement the sequestration.

Table 1-1.

Funding for National Defense and DoD Under the BCA and Projected Costs for DoD's Plans

(Billions of dollars)

	FYDP									Total, 2013- 2021
	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Nominal Dollars										
Initial BCA Funding Caps										
National defense	544 ^a	552	566	577	590	603	616	630	644	5,322
DoD's share of national defense (Estimated) ^b	520	527	541	551	563	576	588	602	615	5,083
Funding Caps After Automatic Reductions										
National defense	501 ^c	497	511	522	535	548	561	575	589	4,839
DoD's share of national defense (Estimated) ^b	478	475	488	499	511	524	536	549	563	4,623
Projected Cost of DoD's Plans										
CBO's cost projection ^d	525	545	567	588	612	632	656	681	706	5,512
FYDP-based cost projection ^e	525	533	545	554	566	585	606	628	650	5,190
Cut to DoD's Plans Needed to Satisfy the BCA										
After Automatic Reductions										
CBO's cost projection ^d	47	70	79	89	101	108	120	132	143	889
FYDP-based cost projection ^e	47	58	57	55	55	61	70	79	87	567
2013 Dollars^f										
Initial BCA Funding Caps										
National defense	544 ^a	544	550	552	554	556	557	559	560	4,976
DoD's share of national defense (Estimated) ^b	520	520	526	527	529	531	532	533	535	4,752
Funding Caps After Automatic Reductions										
National defense	501 ^c	490	497	499	503	506	508	510	512	4,526
DoD's share of national defense (Estimated) ^b	478	468	475	477	480	483	485	487	489	4,322
Projected Cost of DoD's Plans										
CBO's cost projection ^d	525	538	552	562	575	582	593	604	614	5,144
FYDP-based cost projection ^e	525	525	529	530	532	539	547	556	565	4,850
Cut to DoD's Plans Needed to Satisfy the BCA										
After Automatic Reductions										
CBO's cost projection ^d	47	69	77	85	95	99	108	117	125	822
FYDP-based cost projection ^e	47	57	54	53	52	56	62	69	76	527

Source: Congressional Budget Office.

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

- a. The sequestration (cancellation) of funds for national defense in 2013 (\$43 billion according to the BCA) will be taken from funding subject to a cap of \$544 billion that was established by the American Taxpayer Relief Act.
- b. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- c. The automatic spending reductions did not establish a lower cap in 2013; instead, spending will be reduced by sequestering (canceling) funding already appropriated for that fiscal year. The amount shown for 2013 is CBO's estimate of the funding available in DoD's base budget after sequestration.
- d. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- e. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- f. Nominal dollars were converted to 2013 dollars using CBO's projection of the gross domestic product price index.

for inflation—provides a better comparison of the buying power a dollar will have in the future relative to its buying power today and makes it easier to identify growth trends or reductions across multiple years. The funding available for DoD's base budget for 2013 (after the automatic spending reductions were implemented) is 11 percent lower than the amount appropriated for 2012; measured in those terms, the cap will increase to only \$489 billion by 2021 (see the fourth row in the second panel in Table 1-1), which is still 9 percent less, in real terms, than the amount appropriated in 2012.

The effect of such reductions on national security is beyond the scope of this paper. Although the budget constraints imposed by the BCA would require a significant scaling back of DoD's plans, policymakers may find it acceptable for the United States to reduce the size of its military in the coming years—as more than a decade of overseas conflicts and of significant growth in DoD's base budget draw to a close. At their deepest in 2014, the cuts from the BCA will return DoD's budget (adjusted for inflation) to where it stood in 2006, still 25 percent above the department's funding in 2000 and significantly larger than the military budget of any other nation.

Projected Cost of DoD's 2013 Plan

In its 2013 FYDP (the first issued since the BCA was enacted), DoD outlined plans that recognize tighter budgetary constraints but that also reflect changes in the national security environment, including the end of major military operations in Iraq, the winding down of major operations in Afghanistan, and a renewed focus on combating technologically advanced adversaries. DoD's plans incorporate several measures to constrain its budgets, particularly from 2013 through 2017. Two of the more prominent are the following:

- Reducing the number of uniformed military personnel by 90,000 by 2017 (a decrease of about 6 percent from the number in 2012); and
- Deferring purchases of many new weapon systems until after 2017.

Although DoD has developed estimates of the costs to implement those plans, there is no way to know for certain how the actual costs to man, equip, train, and operate military forces will change over time.

To address that uncertainty, CBO developed two projections of the cost to implement DoD's plans through 2021: CBO's cost projection, which reflects DoD's actual experience and Congressional decisions in recent years, and a FYDP-based cost projection (see Table 1-2). The latter, which is based on CBO's extrapolation of DoD's programs as well as an analysis of documents from DoD that include longer-term plans than those described in the FYDP, incorporates the cost assumptions underpinning the 2013 FYDP and yields estimates of costs that are lower than CBO's projection. Both projections are modeled closely on projections made in CBO's annual analysis of the long-term implications of DoD's defense plans.⁵

DoD has yet to release its budget request for 2014 and the associated FYDP and other long-term plans. Those plans may make some changes to the previous ones to reflect current DoD strategy, but if the costs are close to the costs indicated in the 2013 FYDP, the size of the cuts that DoD will have to make to comply with the BCA will be about the same as those described in this report.

CBO's Cost Projection

CBO projected the cost of DoD's plans using its own estimates of cost factors and growth rates that reflect the department's experience in recent years. In particular, CBO projects that DoD's ongoing efforts to control cost growth in areas such as health care and weapon system procurement (some of which would require Congressional approval) will not be as successful as the department assumes in its cost estimates. That projection is CBO's best estimate of the future cost of DoD's plans, though costs could be higher or lower.

Under CBO's cost projection, the estimated cost of DoD's 2013 plan (in nominal dollars) is \$5.5 trillion over the 2013–2021 period, \$889 billion more than the BCA caps permit. In 2013 dollars, the difference amounts to \$822 billion (see Table 1-1). By either measure, DoD's

5. See Congressional Budget Office, *Long-Term Implications of the 2013 Future Years Defense Program* (July 2012), www.cbo.gov/publication/43428. The lower-cost estimate and the higher-cost estimate in this report are based on the "FYDP & extension" and "CBO projection" cases, respectively, in CBO's July 2012 report except that they incorporate the assumption that DoD would have the flexibility to address the sudden increase in procurement budgets (the "bow wave") that CBO projects for 2018 and beyond by modifying weapons purchases so as to smooth out year-to-year changes.

Table 1-2.**Cost Assumptions Underlying Two Projections of DoD's Plans**

	CBO's Cost Projection (2013 to 2021)	FYDP-Based Cost Projection ^a (2018 to 2021)
Military Pay	ECI	ECI ^b
Civilian Pay	0.5 percent increase in 2013; ECI after 2013	ECI ^b
Military Health Care	Starts with projected national growth rates for health care spending, plus excess cost growth based on DoD's recent experience; converges to projected national growth rates by 2028	Tracks with national growth rates for health care spending
General Operations	DoD's estimates through 2017; after 2017, costs aside from pay and health care grow at their historical average rate	Costs aside from pay and health care grow at their historical average rate
Acquisition	Historical average cost growth	DoD's estimates with no cost growth
Military Construction and Family Housing	DoD's estimates through 2017; no real (inflation-adjusted) growth beyond 2017	No real growth

Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; ECI = employment cost index (the Bureau of Labor Statistics' index for wages and salaries in the private sector).

- a. The FYDP-based cost projection uses the cost estimates provided in the Future Years Defense Program through 2017.
- b. Military and civilian pay would increase with the ECI beginning in 2018 but would start from a lower level than in CBO's projections because DoD assumes smaller pay raises during the 2014–2017 period.

funding under the reduced caps will be about 16 percent less than the estimated cost of implementing its plans over the 2013–2021 period—about 13 percent less from 2013 through 2017 and about 19 percent less during the following four years.

The cost growth in DoD's budget means that, even after the reduction in 2013, the department will have to cut back on its forces and activities a little more every year through 2021 (or find additional efficiencies each year) to remain within the budget caps.

The FYDP-Based Cost Projection

The FYDP-based cost projection is based on cost assumptions underpinning DoD's 2013 FYDP and the associated budget request for that year. DoD's request for its 2013 base budget was \$525 billion, about 3 percent less in real terms than the amount appropriated for 2012. The FYDP-based cost projection indicates that, under DoD's plans, base budgets for the next four years would be essentially flat in real terms, rising only to \$532 billion in 2017. Those costs would be slightly above CBO's

estimate of DoD's share of the funding available under the initial caps set by the BCA, but they would average \$53 billion more (in 2013 dollars) per year than DoD's share of the amount allowed under the BCA's automatic spending reductions (see Figure 1-2).⁶

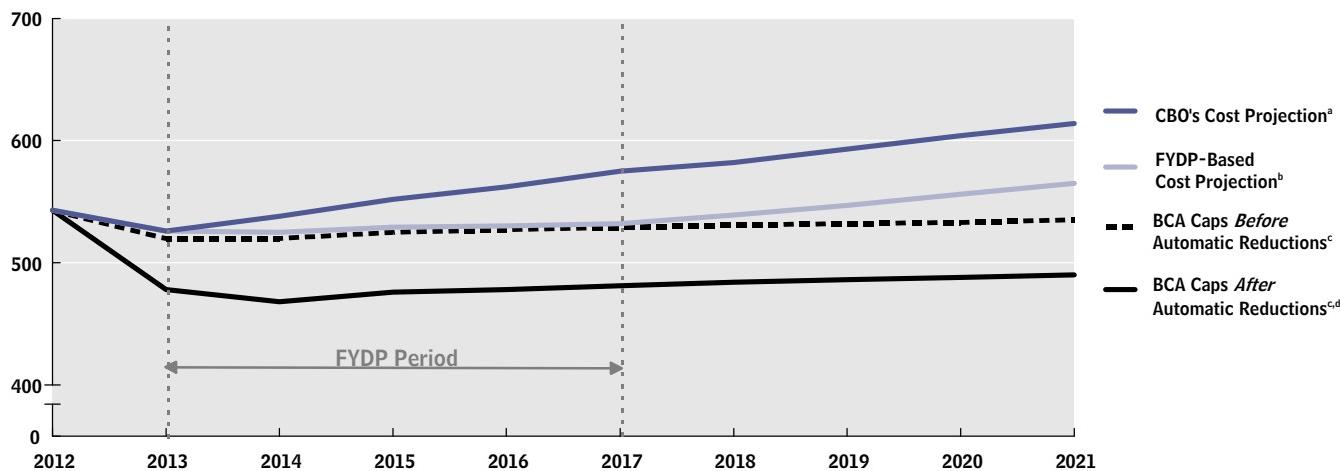
Even under the FYDP-based cost projection, DoD's plans would not comply with the nearly flat budgets (in real terms) required by the BCA's initial caps from 2018 through 2021. Because planned force reductions would be complete by 2018, they would no longer serve to offset real increases in the per capita costs of manning, equipping, and operating military forces. Furthermore, DoD's longer-term plans for purchasing major weapon systems indicate increased acquisition costs after 2017.

6. The estimated costs of DoD's plans do not exceed the initial caps set for budget function 050 as a whole through 2017, but they would average about \$4 billion more per year more over that period than the 95.5 percent share of funding for that budget function that DoD received over the past decade.

Figure 1-2.

Projected Costs of DoD's Plans and the BCA Caps Before and After Automatic Reductions

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- d. The automatic spending reductions did not establish a lower cap in 2013; instead, spending will be reduced by sequestering (canceling) funding already appropriated for that fiscal year. The amount shown for 2013 is CBO's estimate of the funding available in DoD's base budget after sequestration.

Under the FYDP-based cost projection, the estimated costs of DoD's plans (in 2013 dollars) rise to \$565 billion in 2021 (\$76 billion above the BCA limit after automatic reductions) and total \$527 billion more than allowed under the BCA from 2013 through 2021 (see the last row in Table 1-1 on page 9). In nominal dollars, that total would amount to \$567 billion. By either measure, DoD's funding under the caps that went into effect in March 2013 will be about 11 percent less over the 2013–2021 period than the FYDP-based projection indicates—about 10 percent less from 2013 through 2017 and about 12 percent less during the following four years.

The FYDP-based projection of the costs of implementing DoD's plans is lower than CBO's cost projection primarily because the department's estimates of the costs of compensating military personnel (including the cost of the military health care system), compensating DoD's

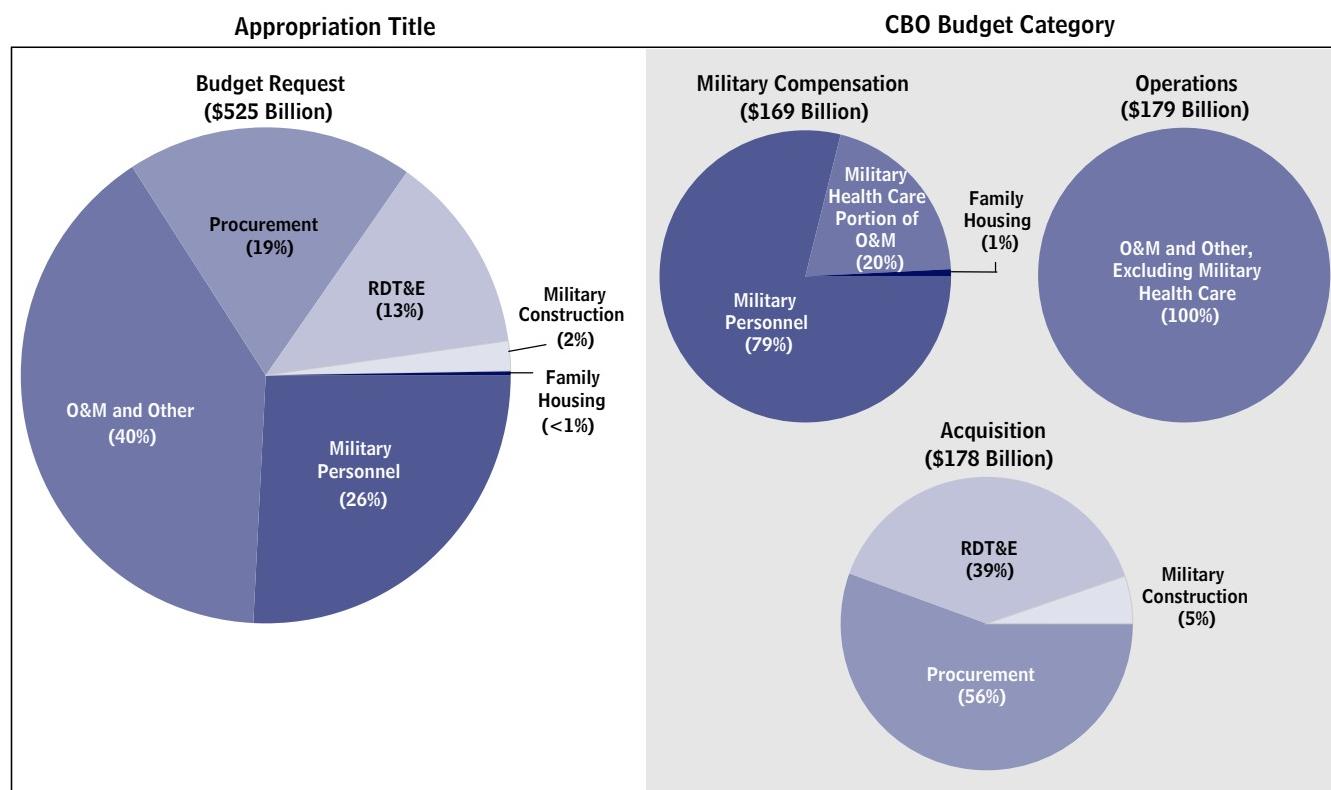
civilian employees, and acquiring weapon systems are lower than the estimates underlying CBO's cost projection. Neither projection incorporates an assumption that activities currently funded by the appropriations for operations in Afghanistan and other places overseas will have to be funded out of the base budget after those operations end. However, if the need for funding for some such ongoing activities migrates from the budget for overseas contingency operations (OCO) to the base budget, DoD will have to cut more forces or more funding for acquisition or operations from its base budget than CBO has estimated.

Major Elements of DoD's Budget

The mismatch between the funding limits imposed by the BCA's automatic reductions and the projected cost of DoD's plans illustrates the challenge that the department

Figure 1-3.

Funding Requested for DoD's 2013 Base Budget, by Appropriation Title and CBO Budget Category



Source: Congressional Budget Office.

Note: DoD = Department of Defense; O&M = operation and maintenance; O&M and other = the appropriation for O&M and minor appropriations for revolving funds; RDT&E = research, development, test, and evaluation.

faces in attempting to comply with the law. Policymakers could achieve compliance in many ways. Activities that account for the largest portions of DoD's budget offer the most room to achieve savings, and some portions of the budget might yield savings more quickly than others. To help capture the effects of different types of budget cuts, CBO grouped the components of the six major appropriation titles that the Congress uses to fund DoD's activities into three broad budget categories.

DoD's Appropriation Titles

Of the six major titles for DoD's appropriations, the two largest are *operation and maintenance* (O&M) and *military personnel*. The O&M appropriation funds the day-to-day activities of the department, the training of military units, the majority of the costs of the military's health care program, and compensation for most of DoD's civilian employees. Appropriations for military

personnel fund most elements of compensation for uniformed service members, including pay, housing and food allowances, and related activities, such as moving service members and their families between duty stations. O&M represented about 40 percent of the base budget request for 2013, followed by military personnel at about 26 percent (see Figure 1-3).⁷ (The budget shares of the six appropriation titles in the 2013 request are largely consistent with the appropriations enacted for 2012.)

Procurement appropriations fund the purchase of new weapon systems and other major equipment and upgrades to existing weapon systems. *Research, development, test, and evaluation* (RDT&E) appropriations pay for the development of technology and

7. For this report, CBO included small appropriations such as revolving funds in the O&M appropriation.

weapons. Procurement represented about 19 percent of the base budget request for 2013 and RDT&E represented about 13 percent.

Military construction appropriations fund the construction of buildings, roads, and other infrastructure. *Family housing* appropriations fund housing for married members of the military and those with children. Together, those titles made up about 2 percent of the 2013 request.

Budget Categories Used in This Report

Although DoD's major appropriation titles group spending by general functional area, they can be ill-suited for evaluating the budgetary effects of certain broad changes in the military. For example, changes to military compensation could potentially span appropriations for military personnel, family housing, and operation and maintenance. Therefore, in this report, CBO grouped DoD's base-budget appropriation into three composite categories:

- *Military Compensation.* Includes appropriations for military personnel, family housing, and military health care (the latter is contained in the O&M appropriation).
- *Acquisition.* Includes appropriations for RDT&E, procurement, and military construction.⁸
- *Operations.* Includes the remainder of the O&M appropriation and other minor appropriations, such as those for revolving funds.

In DoD's 2013 base-budget request, the three categories are roughly equal: \$169 billion (32 percent) for military compensation; \$178 billion (34 percent) for acquisition; and \$179 billion (34 percent) for operations (see Figure 1-3). Because the funding available under the BCA caps grows very little over the next eight years, after adjusting for inflation, real growth in any one category of DoD's budget will require policymakers to make cuts in other categories to stay within those caps.

Military Compensation. Under CBO's cost projection, military compensation is estimated to grow by about 24 percent in real terms—from \$169 billion to

\$209 billion—between 2013 and 2021 (see Table 1-3). Under the FYDP-based cost projection, it is estimated to grow by 9 percent—to \$184 billion. Those increases contrast sharply with the 2 percent real increase in the caps over that period. The reductions in end strength (the number of uniformed military personnel as of the final day of the fiscal year) planned for the next few years will not significantly offset the rising per capita costs of military compensation in the base budget because, beginning in 2013, DoD shifted military personnel funding for forces above the level planned for 2017—90,000 service members in 2013, gradually decreasing over the subsequent five years—to the OCO budget.

Why is the difference between the two projections so large? Under CBO's cost projection, military compensation is estimated to continue to grow in real terms through 2021 primarily because of growth in health care spending and pay increases. Although health care costs will represent only 23 percent of military compensation in 2013, in CBO's estimate those costs account for 65 percent of the projected increase in funding for that budget category. Most of the projected rapid increase in DoD's military health care costs stems from two factors: the anticipated increase in health care costs in the general economy, and the increasing fraction of military retirees and their family members who are expected to rely on the program rather than on health insurance provided by civilian employers or on insurance they purchase themselves. Participation in DoD's program has been growing, and is expected to continue to grow, because of the low out-of-pocket expenses that participants incur for DoD-provided health care. Many of the copayment requirements, deductibles, and maximum annual out-of-pocket payments have remained unchanged or have decreased since the mid-1990s. Projected growth in health care costs is lower under the FYDP-based cost projection because it reflects cost-containment measures that DoD has requested but that CBO did not incorporate in its projection because they have routinely been barred by Congressional action in the past.⁹

Pay—including basic pay, bonuses and special pay (which are provided for a variety of reasons, including the retention of service members with particular skills), and retirement accrual—makes up 61 percent of the military

8. In previous analyses, CBO did not include military construction in the acquisition category. For example, see Congressional Budget Office, *Long-Term Implications of the 2013 Future Years Defense Program* (July 2012), www.cbo.gov/publication/43428.

9. Indeed, most of the changes requested by DoD as part of its efforts to control health care costs were explicitly rejected in the National Defense Authorization Act for Fiscal Year 2013; similar proposals met the same fate in previous years.

Table 1-3.**Projected Costs of DoD's Plans, by Budget Category**

(Billions of 2013 dollars)

	DoD's Budget Request, 2013	Costs Under CBO's Cost Projection, 2021 ^a	Costs Under the FYDP-Based Cost Projection, 2021 ^b
Military Compensation			
Cash compensation	103	115	109
Health care	39	65	49
Housing and other	27	29	27
Subtotal	<u>169</u>	<u>209</u>	<u>184</u>
Acquisition			
Science and technology	12	15	15
Major weapon systems	106	142	124
Other acquisition	60	57	56
Subtotal	<u>178</u>	<u>214</u>	<u>195</u>
Operations			
General operations	121	125	124
Civilian compensation	58	66	62
Subtotal	<u>179</u>	<u>191</u>	<u>186</u>
Total	525	614	565

Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

compensation category in 2013. Pay accounts for roughly 30 percent of the real increase in military compensation costs by 2021 under both cost projections, although the dollar increase is larger under CBO's cost projection because CBO assumed larger pay increases from 2014 to 2017 (see Chapter 2). Housing and other compensation, such as subsistence allowances, account for the remaining real growth in CBO's projections.¹⁰

Acquisition. After adjustment for inflation, costs associated with the acquisition category are estimated to increase by 20 percent—from \$178 billion in 2013 to \$214 billion in 2021—under CBO's cost projection and by 10 percent under the FYDP-based cost projection

(see Table 1-3). That growth is much greater than the increase in the caps.

In DoD's 2013 budget request, 60 percent of the funding for the acquisition category was allocated to the development and procurement of major weapon systems, 7 percent to basic research and development (science and technology), and 33 percent to other acquisition—including remaining RDT&E, smaller procurement programs, and military construction.¹¹

10. For a more detailed description of the elements of military compensation, see Congressional Budget Office, *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), www.cbo.gov/publication/43574.

11. For this analysis, CBO defined major weapon systems as those associated with the Major Defense Acquisition Programs for which DoD has submitted Selected Acquisition Reports to the Congress. CBO also included projects that will become major weapon system programs if current plans do not change—for example, a future bomber (\$290 million requested for 2013) and a replacement for Ohio-class ballistic missile submarines (\$483 million requested for 2013).

Under both cost projections, most of the growth in funding for acquisition would result from increased spending on major weapon systems. The difference between CBO's cost projection and the FYDP-based cost projection arises primarily because of differences in estimates of the costs of those weapons. CBO's cost projection incorporates cost growth that is commensurate with what DoD has experienced, on average, in its past acquisition programs. On that basis, CBO adjusted DoD's current cost estimates for major programs included in the FYDP and in other, longer-term plans for new weapon purchases.

Under current plans, DoD's purchases of weapons will experience a sharp jump in 2018.¹² However, both CBO's cost projection and the FYDP-based cost projection reflect the assumption that current procurement plans would be adjusted by delaying some purchases to avoid that sharp increase in spending. The substantial growth in acquisition costs projected to occur after 2017, just beyond the five-year period encompassed by the FYDP, suggests that the department is constraining acquisition funding within its formal five-year budget window by deferring purchases to later years. Indeed, before the BCA was enacted, DoD's plans reflected the assumption that funding for the acquisition category would steadily increase. Acquisition is often deferred to later years in response to near-term budget constraints; acquisition funding can be easier to cut quickly than funding in the other budget categories—where it is often preferred that cuts be phased in over several years, by, for example, reducing the workforce through attrition instead of with immediate layoffs. Indeed, DoD cut acquisition much more rapidly and deeply than other parts of the budget during the drawdown after the Cold War.

Operations. Proposed funding for the operations category totals \$179 billion in the 2013 request. The category comprises most of the O&M appropriation as well as the appropriations for working capital and revolving funds. (For this study, CBO includes in its military compensation category costs for the military health care system that are contained in the O&M appropriation title.) The operations category includes the cost to compensate most of DoD's civilian employees. The

remaining civilian employees are funded in other budget categories.

Under CBO's cost projection, the operations category is estimated to increase by about 7 percent in real terms—from \$179 billion in 2013 to \$191 billion in 2021 (see Table 1-3). Under the FYDP-based cost projection, real growth is estimated to be about 4 percent over the same period. The cost of operations is projected to grow more slowly than costs in other categories in part because of the decrease in force structure that is scheduled to occur from 2013 through 2017; in general, smaller forces cost less to train and operate. CBO based its per capita estimate of growth on general trends in DoD funding since 1980.

Assessing what specific activities would account for the projected growth in operations costs is difficult because of the wide array of activities the category encompasses and because the four military services might categorize certain activities in different ways. Consequently, CBO divided the operations budget category into two subcategories: general operations—representing about two-thirds of the operations budget category for 2013 through 2021—and civilian compensation.

The general operations subcategory includes funding for a variety of functions: the operation of military facilities; training for military units (including the fuel and other consumables required for that training); peacetime deployment of naval, air, and ground forces outside of the United States to establish a military presence and to train and work with other countries' military services; maintenance of weapon systems; recruitment and training of new military personnel; payment for support contractors; and provision of other headquarters and administrative functions. (Combat operations are funded outside of the base budget and therefore are not included here.) Funding for civilian compensation pays for the government civilians tasked with executing many of those activities.

In the FYDP-based cost projection, each of these subcategories accounts for about half of the growth projected for operations through 2021. In CBO's cost projection, however, civilian pay accounts for two-thirds of the projected growth, primarily because CBO assumes more rapid civilian pay increases than are built into the FYDP. (Details of those assumptions are described in Chapter 2.)

12. See Congressional Budget Office, *Long-Term Implications of the 2013 Future Years Defense Program* (July 2012), www.cbo.gov/publication/43428.

General Approaches to Reducing DoD's Costs

With the automatic reductions mandated by the Budget Control Act, funding for the Department of Defense's base budget is 9 percent lower in 2013 than the Administration's request for that year. In addition, DoD's funding will be capped at similar levels for eight more years with little growth other than adjustments for inflation. To satisfy that budget profile, policymakers could follow one of two general approaches, or some combination of them:

- *Reduce the number of military units fielded but maintain current funding levels per unit.* Reducing the force structure would have the advantage of distributing savings across most of DoD's budget. Units that remained in the force would continue to be funded at levels that have produced the highly capable forces of today's military. However, the military would have less capacity to respond to multiple conflicts, and prolonged conflicts would probably require longer overseas deployments for service members.
- *Keep the same number of military units but decrease the funding made available to man, equip, and operate those units.* This approach would maintain the size of the force at planned levels but with less funding to support them. DoD could achieve lower funding by reducing or slowing purchases of new weapons, decreasing training, and decreasing the pace of peacetime operations. Such measures might, however, compromise the U.S. military's superiority in areas such as advanced weaponry and comprehensive training and could diminish the military's ability to maintain an overseas presence.

Achieving the immediate reductions required by the BCA is complicated by the fact that funding for military compensation and operations—which represents two-thirds of DoD's budget—can be difficult to cut rapidly without disrupting the military's current and planned activities to some extent. In addition, even after making such cuts, keeping budgets flat (after adjusting for the effects of

inflation) will require DoD to account for the tendency of the costs of many parts of its budget to increase at rates greater than inflation. Limiting that cost growth would reduce the need for DoD to make additional cuts to force structure, operations, or acquisition each year to keep the budget from growing.

The Congressional Budget Office's analysis of the savings that might be realized from cutting different elements of DoD's force structure or from other approaches focused on the following criteria:

- The amount of savings each approach might offer,
- The immediacy with which savings could be realized, and
- The implications each approach might have for DoD's capabilities.¹

1. Several recent studies have examined approaches that DoD could take to modify its plans and reduce its costs. (This report focuses on budgetary issues, but those studies examine the types of conflicts the U.S. military might face in the future.) See, for example, Stuart E. Johnson and others, *A Strategy-Based Framework for Accommodating Reductions in the Defense Budget* (RAND Corporation, 2012), www.rand.org/pubs/occasional_papers/OP379.html; Defense Advisory Committee, *A New U.S. Defense Strategy for a New Era: Military Superiority, Agility, and Efficiency* (Stimson Center, November 2012), www.stimson.org/books-reports/a-new-us-defense-strategy-for-a-new-era-military-superiority-agility-and-efficiency/; Todd Harrison and Mark Gunzinger, *Strategic Choices: Navigating Austerity* (Center for Strategic and Budgetary Assessments, 2012), www.csbaonline.org/publications/2012/11/strategic-choices-navigating-austerity/; Carl Conetta, *Reasonable Defense: A Sustainable Approach to Securing the Nation*, Project on Defense Alternatives (December 2012), <http://comw.org/pda/fulltext/121114-Reasonable-Defense.pdf>; Gary Roughead and Kori Schake, *National Defense in a Time of Change* (Brookings Institution Press, February 2013); and Cindy Williams, *Making Defense Affordable* (Brookings Institution Press, February 2013), www.brookings.edu/research/papers/2013/02/make-defense-affordable.

The specific examples cited by CBO are only illustrative. Consequently, a particular approach outlined below would not necessarily have to be part of an overall strategy for curtailing defense costs, or some variation of that approach could be adopted instead. (Ways in which the general approaches presented below could be combined to bring DoD's budgets into compliance with the BCA are discussed in Chapter 3.)

Reduce Force Structure

Reducing the costs of DoD's plans could be accomplished by reducing the number of units that make up the military force structure. That would entail eliminating personnel, systems, and all operations of the affected units and would allow DoD to comply with the BCA's automatic reductions while continuing to be able to afford the equipment, training, and other support needed to maintain (or improve) the quality and capabilities of the units that remained.

Reducing force structure would generate savings across all three categories of DoD's budget: military compensation (because the department would need to pay and provide benefits to fewer service members); acquisition (fewer weapons and other items would need to be purchased); and operations (fewer units would require basing, training, fuel, maintenance, and other types of support).² Over a long enough period, the percentage reduction to DoD's base budget would correspond to the percentage reduction in the force structure if supporting infrastructure was reduced by a similar percentage. For example, active-duty end strength fell by 33 percent from 1985 to 1997—the period from the peak of the defense build-up during the Reagan Administration to the nadir in defense spending following the Cold War. As a result, the defense budget fell in nearly equal proportion—by 32 percent in real terms. Although this relationship would break down if the cuts were very large (because some fixed costs could not be reduced in proportion to the force), it should continue to hold for the smaller cuts needed to meet the budget caps established by the BCA.

2. Temporarily suspending operations until a future date—for example, retiring a squadron of older fighters to save operations costs but with the intent of eventually reactivating that squadron when new aircraft become available—would constitute a cut in operations, not in force structure.

Cuts to both force structure and supporting infrastructure might have to be phased in over several years, however, primarily because it could take time to reduce the number of military personnel (and supporting civilian personnel) to avoid disruptive measures such as involuntary separations and to maintain balance among the various ranks. Although rapid reductions have been achieved in the past—for example, the Army reduced the number of active-duty personnel by 16 percent in the single year between 1991 and 1992—CBO assumed for this analysis that force reductions would be implemented over five years, a length of time consistent with the force reductions DoD already has planned for 2013 to 2017. Corresponding reductions in other areas—such as administrative functions, bases, and other organizational and physical infrastructure—would require a similar amount of time to implement.

In addition, up-front funding might be needed to help implement some reductions or to reduce the disruption associated with them. For example, financial incentives could be used to encourage the departure of personnel in relatively overstaffed occupations and the retention of those in relatively understaffed specialties. Similarly, the cost to close a base would depend on whether DoD was required to prepare the property for sale or transfer to entities outside of the federal government (for example, by cleaning up environmental hazards) or whether the base could simply be shuttered. Although such up-front spending could make reductions in force structure more efficient, it would also count against the BCA's funding limits.

Savings in Military Compensation and Operations

To estimate how much military capability DoD would need to cut to achieve a given amount of savings each year, CBO analyzed the direct, indirect, and overhead costs associated with the military compensation and operations of several different types of combat units (see Table 2-1). Direct costs are those attributed to a unit itself (such as compensation for service members in the unit and the cost to operate that unit); indirect costs are those attributed to other units that provide support (such as transportation or maintenance) to the combat unit; and overhead costs are those attributed to overall operation of the military service to which the unit belongs (such as recruiting, basic training, developing combat doctrine, and providing servicewide administrative support). CBO's analysis included units from each of the military services, including reserve and National Guard

Table 2-1.**Projected Costs for Military Compensation and Operations, by Selected Units**

(Millions of 2013 dollars per unit)

	Approximate Number of Units in 2013	CBO's Cost Projection ^a				FYDP-Based Cost Projection ^b			
		Total	Direct	Indirect	Overhead	Total	Direct	Indirect	Overhead
Army									
Heavy BCTs	24	1,580	310	540	730	1,500	290	520	690
Stryker BCTs	9	1,830	370	570	880	1,740	360	540	840
Infantry BCTs	40	1,180	230	420	530	1,130	220	400	510
Navy									
Aircraft carriers	10	1,270	470	230	580	1,210	440	220	550
Aegis cruisers/destroyers	84	150	60	30	60	140	60	30	60
Attack submarines	54	130	60	40	30	120	60	40	30
Carrier air wings	10	1,100	310	310	490	1,050	290	290	460
Marine Corps									
Infantry regiments	11	1,860	290	300	1,270	1,770	280	280	1,210
Regiment air components	11	1,290	370	370	550	1,220	350	350	520
Air Force^c									
Tactical fighter squadrons	90	290	90	80	120	280	90	70	120
Bomber squadrons	10	880	280	240	360	840	270	230	340
Heavy airlift squadrons	21	310	90	80	140	300	90	80	130
Tanker squadrons	33	400	120	100	170	380	120	100	160

Source: Congressional Budget Office.

Notes: Costs are weighted averages for the active, reserve, and guard components. Direct costs are those attributed to the unit itself. Indirect costs are for the unit's proportional share of combat support units and activities. Overhead costs are for the unit's proportional share of its service's other activities. Totals exclude any costs for DoD's activities that are outside the services.

FYDP = Future Years Defense Program; BCT = brigade combat team; DoD = Department of Defense.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years. Costs shown are averages for 2013 through 2017.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP. Costs shown are averages for 2013 through 2017.
- c. Numbers are based on notional squadrons of 12 aircraft each.

units. The specific number and types of units that might be eliminated as part of an overall combination of defense cuts would depend on the balance of capabilities that policymakers considered necessary for the future.

CBO's approach to estimating the military compensation and operations savings that could be achieved by eliminating a combat unit can be illustrated by the example of an Army heavy (or armored) brigade combat team (BCT). Heavy BCTs include approximately 3,700 soldiers and are equipped with M1 Abrams series tanks and M2/M3 Bradley series infantry fighting vehicles. According to CBO's cost projection, the direct cost to the Army to maintain and operate a heavy BCT, including the full cost of pay and benefits for the soldiers, will average

about \$310 million per year over the 2013–2017 period.³ But the Army fields other units that provide support (such as artillery fire, engineering, and logistics) to BCTs in combat. If the Army proportionally cut those units as well, it would save an additional \$540 million in what CBO considers indirect costs, for a total of about \$850 million per year for direct and indirect costs combined under CBO's cost projection. The Army also incurs

3. In CBO's analysis, the costs for all service branches are the weighted averages for units in the active force, reserve, and National Guard. Active units and their support and overhead cost a little more than the weighted average; reserve and Guard units, somewhat less. The differences depend on the service and the type of unit.

overhead costs for BCTs because they require support from the organizational and physical infrastructure that the Army has developed to recruit and provide individual training to new soldiers who will join the unit, to train members of the unit to operate together, to house the unit, to maintain its equipment, and to provide headquarters support. If the Army trimmed those overhead functions in proportion to any reduction in combat units, it would save another \$730 million in overhead costs for a heavy BCT, or a total of about \$1.6 billion a year for that type of unit.

In short, under CBO's cost projection, eliminating a heavy BCT could save as little as \$310 million a year if the Army made no cuts to support units or overhead, or as much as \$1.6 billion a year if the Army reduced indirect and overhead costs proportionately. Average annual costs to the Army for a heavy BCT from 2013 to 2017 would be roughly 5 percent lower under the cost projection based on DoD's Future Years Defense Program. The difference results from CBO's projection of higher growth rates in military compensation and operations costs than are reflected in the FYDP.

Estimates of the savings from trimming force structure in the Navy, Marine Corps, and Air Force follow similar logic (see Table 2-1). Except for portions of military health care, the savings estimated for combat units do not include any reduction in defensewide funding that is appropriated outside of the services' budgets. Defensewide funding supports activities such as intelligence operations, the Missile Defense Agency, and operations of the Office of the Secretary of Defense. If those activities could be reduced because they were supporting a smaller military force, savings would be greater.

Savings in Acquisition Costs

The analysis described above focuses only on annual military compensation and operations costs. Cuts in force structure would probably reduce acquisition costs in the long term as well, mainly for procurement and construction. For example, an Air Force subject to reductions in its force structure would, in principle, need to purchase fewer new aircraft and update fewer hangars when existing aircraft reached the end of their service life. (Research and development costs would be less likely to change with force size because those costs are not directly dependent on the number of aircraft that are purchased.)

The timing and amount of any acquisition savings from cuts to force structure would be highly variable, however. Eliminating a unit that had been slated to receive costly new equipment in the near term could yield immediate acquisition savings if those planned purchases were canceled; but acquisition savings would be slower to accrue if the unit being eliminated was not slated to receive new equipment in the near future. For example, if the Marine Corps was reduced in size, it might be possible to cancel the final few years of MV-22 aircraft production, which is currently scheduled to run through 2019. In contrast, if the Air Force was reduced in size, savings from canceled purchases of F-35 fighters might not be realized until near the end of planned production in the 2030s. The analysis of combined force structure cuts described in Chapter 3 includes estimates of acquisition savings that might be achieved for each combination of reductions.

Reduce Funding Without Reducing Force Structure

As reflected in DoD's base budgets from 2002 through 2012, the department's costs per active-duty service member have increased by about one-third (after accounting for inflation) over that period. If some of those costs could be rolled back, DoD would be able to retain a larger force structure than it otherwise could while remaining in compliance with the BCA's automatic reductions. Each of DoD's three broad budget categories—military compensation, acquisition, and operations—could potentially yield savings in this manner. Specifically, CBO examined approaches that would do the following:

- Reduce military compensation costs without reducing the number of personnel,
- Reduce acquisition costs, and
- Reduce operations costs.

Important factors to consider include the size of the budget element being cut (smaller items generally yield smaller savings), the speed with which rollbacks could be practically made, and the implications such cuts would have for military capabilities. The following sections describe several types of cuts that CBO examined with those criteria in mind.

Table 2-2.**Projected Growth in Costs Under DoD's 2013 FYDP, by Budget Category**

	Real Growth for 2013–2021 (Percent)		Increase in Costs Between 2013 and 2021 (Billions of 2013 dollars)	
	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b
Military Compensation				
Cash compensation	12	5	11.9	5.4
Housing and other	8	1	2.2	0.3
Health care	68	26	26.4	10.0
Total	24	9	40.5	15.7
Acquisition				
Science and technology	24	23	2.8	2.7
Major weapon systems	34	16	36.0	17.5
Other acquisition	-5	-5	-2.8	-3.1
Total	20	10	36.0	17.1
Operations				
General operations	3	2	3.9	2.9
Civilian compensation	13	6	7.9	3.3
Total	7	4	11.8	6.2

Source: Congressional Budget Office.

Notes: Shaded subcategories together account for 90 percent of cost growth from 2013 through 2021.

DoD = Department of Defense; FYDP = Future Years Defense Program.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

The need for DoD to make reductions that would constrain the nation's military capabilities would be lessened if the department was able to limit the growth in the prices of the goods or services it purchases—particularly goods or services whose prices are projected to increase faster than the rate of inflation. Such growth is problematic under the flat budget caps of the BCA. Under both projections, more than 90 percent of the estimated growth in costs arises in four particular areas: military cash compensation, military health care benefits, the acquisition of major weapon systems, and civilian compensation (see Table 2-2). Efforts to limit cost growth could have the most impact in those areas.

Reduce Military Compensation Without Reducing the Number of Personnel

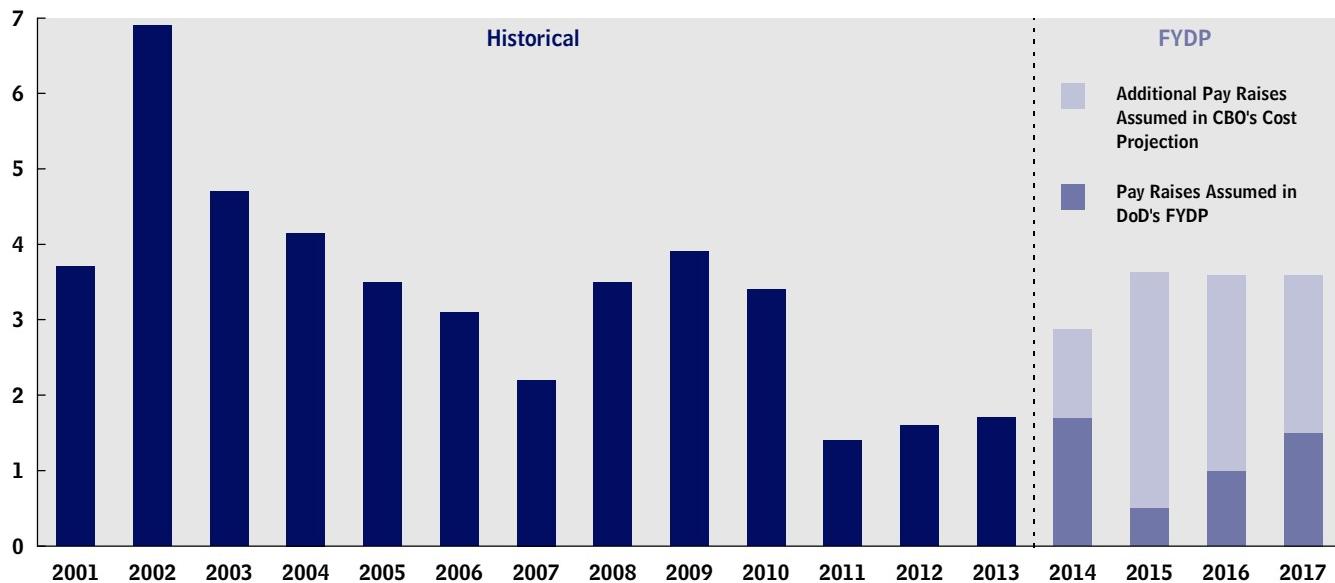
The Administration requested \$169 billion for military compensation in 2013, about one-third of DoD's overall

base-budget request. Achieving immediate reductions in those costs without reducing military end strength would require reducing pay or benefits or imposing furloughs on service members. Given the total cost of military compensation, small percentage reductions could result in substantial savings. However, the President has the authority to exempt military personnel accounts from cuts mandated under the BCA, and the Administration has indicated its intent to do so for 2013. CBO did not examine reductions in military pay below 2013 levels.⁴ Of course, preserving per capita military pay necessitates larger cuts elsewhere; thus, over the longer

4. Some approaches to constraining the growth in costs for military compensation are discussed in Congressional Budget Office, *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), www.cbo.gov/publication/43574.

Figure 2-1.**Annual Percentage Increases in Military Basic Pay**

(Percent)



Source: Department of Defense.

Notes: Basic pay is the main (and typically the largest) component of military pay. All service members receive basic pay, the amount of which depends on the member's pay grade—based on military rank—and on the number of years that he or she has served.

DoD = Department of Defense; FYDP = Future Years Defense Program.

term, the decision to forgo such reductions could be revisited.⁵

Although DoD might not be able to reduce per capita costs for military compensation in the short term, it could endeavor to limit the rate of growth of such costs. Under CBO's cost projection, the annual costs for military compensation in the base budget grow by 24 percent in real terms by 2021, despite no projected change in the number of uniformed service members compensated from base-budget funds (see Table 2-2).⁶ As a result, DoD would have significantly less to spend on force structure, acquisition, or operations than if the growth in military compensation was more modest.

5. DoD has indicated that it will request a pay raise of 1.0 percent for military personnel in 2014, which is 0.7 percentage points less than it had originally planned for that year in its 2013 FYDP. If implemented, that change would reduce growth in overall military compensation in the FYDP-based cost projection, but real costs would still be higher in 2014 than in 2013 because other elements of compensation such as health care and housing allowances will continue to grow.

Under the FYDP-based cost projection, cumulative real growth in military compensation would be only 9 percent from 2013 to 2021. The increase under the FYDP-based cost projection is relatively small by historical standards because the 2013 FYDP is based on the assumption that growth in military pay and health care will be significantly slower than recent trends indicate. In particular, DoD projected that pay raises from 2015 through 2017 will be smaller than in recent experience (see Figure 2-1). For military health care, DoD assumed that the cost-saving measures it requested for those programs will be approved by the Congress and implemented. DoD also projected that the number of active-duty military personnel and their family members receiving health care coverage will decrease as the force is reduced in size, although some of them might enter the

6. Proposed base-budget funding for military personnel from 2013 to 2017 would support the 2017 force level; in DoD's plans for 2013 to 2016, military personnel above that number are assumed to be funded from appropriations for overseas contingency operations.

ranks of retired beneficiaries. (CBO makes the same projection.)

Under both projections, the two areas of military compensation that are expected to experience the largest growth are military cash compensation and military health care.

Reduce Growth in per Capita Military Pay. Although cuts to current military pay levels are unlikely, savings could be obtained by limiting growth in the future. For example, limiting increases in military basic pay to the rate of general inflation would save a total of \$45 billion (in 2013 dollars) through 2021 relative to CBO's cost projection (or \$10 billion relative to the FYDP-based cost projection). Limiting pay increases might make it more difficult to recruit and retain a quality force because it would result in an erosion of wages relative to projections for the nation as a whole. However, the fact that military compensation has risen dramatically over the past decade—to the extent that, on average, enlisted military personnel now earn more than do 90 percent of civilians with similar education and experience—could lessen the effects of such a policy.⁷

From 1981 to 2012, the percentage change in the Bureau of Labor Statistics' employment cost index (ECI) for wages and salaries exceeded the rate of inflation (as measured by the price index for gross domestic product) in all but four years. CBO projects that annual increases in the ECI for wages and salaries will exceed the rate of inflation by an average of 1.8 percentage points from 2013 through 2021. Under CBO's cost projection, military pay would keep pace with the ECI as mandated by current law. Under the FYDP-based cost projection—which reflects DoD's pay projections for 2013 through 2017, followed by growth at the ECI rate thereafter—military pay in 2021 would be about 7 percent less than pay under CBO's projection. Further limiting military pay increases to the rate of inflation over the entire period would result in pay in 2021 that was 13 percent less than what would result from increases at the ECI rate. To mitigate the effect such erosion could have on the recruiting and retention of military personnel, DoD could adopt creative combinations of across-the-board increases that are lower than the growth in the ECI and specific

incentives designed to attract and retain service members with needed skills. Alternatively, with the looming drawdown and present sluggish job market, holding military pay to the rate of inflation for a few years might have little effect on either recruiting or retention.⁸

Reduce Growth in Military Health Care Costs. The TRICARE health care program is available to the military's uniformed personnel and retirees and to their eligible family members and survivors. DoD also offers TRICARE for Life, a program that supplements Medicare for beneficiaries who are eligible for both Medicare and military health benefits. The costs of TRICARE and TRICARE for Life have been among the fastest growing portions of DoD's budget over the past decade, more than doubling in real terms since 2001. Some of that increase stemmed from the introduction of TRICARE for Life in 2002, but the cost of other components—direct care in military facilities, care purchased from private providers, and pharmaceuticals—increased substantially as well.

Under CBO's cost projection, DoD's health care costs are estimated to increase by nearly 70 percent from 2013 to 2021 (after adjustment for inflation), which would add about \$26 billion (in 2013 dollars) to DoD's costs in 2021. That represents the largest increase in percentage terms, and the second-largest increase in dollar terms, among the budget subcategories in CBO's projection (see Table 2-2 on page 21). A variety of proposals have been put forth to curb growth in the cost of military health care. Most of those proposals involve tightening eligibility rules or raising enrollment fees to encourage beneficiaries, particularly retirees, to use other sources of health care (for example, health care plans provided by civilian employers for military retirees who are still working) or increasing copayments to encourage more efficient use of health care services (and shift some of the cost burden to the patients). Depending on the approach taken, those proposals could save several hundred million dollars to \$10 billion a year when fully phased in.⁹

7. Congressional Budget Office, *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), p. 20, www.cbo.gov/publication/43574.

8. See James Hosek, Beth J. Asch, and Michael G. Mattock, *Should the Increase in Military Pay Be Slowed?* TR-1185-OSD (prepared by RAND Corporation for the Office of the Secretary of Defense, 2012), www.rand.org/pubs/technical_reports/TR1185.html.

9. For a few examples of approaches to reducing the cost of military health care, see Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (March 2011), pp. 19 and 78–83, www.cbo.gov/publication/22043.

In fact, the Administration included several proposals in its 2013 budget request that were intended to reduce the growth in DoD's health care costs; the FYDP-based cost projection reflects those anticipated savings. Those proposals, CBO estimates, would bring the growth in military health care costs in line with that projected for U.S. health care costs as a whole.

The Congress, however, has historically rejected proposals for achieving savings by constraining military health care benefits. For example, DoD's budget request for 2013 included a proposal to institute an annual fee for Medicare-eligible military retirees who enroll themselves or their families in TRICARE for Life. Regarding military retirees who are not yet eligible for Medicare (so-called working-age retirees), DoD proposed the following: increasing the annual enrollment fee for TRICARE Prime (the HMO-like option); instituting an annual enrollment fee for TRICARE Standard and Extra (the fee-for-service and preferred-provider options, respectively); and increasing the annual deductibles for the latter two plans. The National Defense Authorization Act for Fiscal Year 2013 did not authorize DoD to implement any of those proposals, but that act did allow DoD to adjust pharmacy copayments for active-duty family members and for retirees and their families as an incentive to purchase mail-order and generic drugs. However, CBO estimates that the change will generate only a fraction of the savings in DoD's health care costs that were assumed in the FYDP.

Reduce Acquisition Costs

Another way to reduce DoD's budgets without cutting force structure is to roll back spending for acquisition. Proposals for reducing defense budgets frequently target acquisition because such cuts can, in many cases, be implemented more rapidly than the gradual drawdowns that many consider preferable for compensation. The sequestration required by the BCA has decreased DoD's total funding by about 9 percent from the amount requested for the 2013 base budget; that would amount to a 11 percent reduction relative to the department's appropriation for 2012. If the size of the force structure and compensation per service member are maintained, the cuts intended to meet the BCA limits will need to be divided almost entirely between acquisition and operations. Under those circumstances, acquisition would face a 13 percent cut in 2013, rising to 31 percent in 2021 under CBO's cost projection (or 20 percent under the FYDP-based cost projection). If the required budget

reductions were taken solely from acquisition, they would amount to 27 percent in 2013 and increase to 58 percent in 2021 under CBO's cost projection (or 38 percent under the FYDP-based cost projection).

Reductions in spending for acquisition could be made in many different ways: They could be spread proportionately among different types of acquisition activities, or DoD could opt to preserve funding in some areas and make deeper cuts in other areas. CBO examined four approaches that could be used to diminish the need for acquisition funding:

- Preserve funding for major weapon systems and reduce funding for other acquisition activities;
- Preserve funding for science and technology (S&T) and other acquisition and reduce funding for major weapon systems;
- Reduce acquisition selectively; or
- Contain cost growth in acquisition programs.

The extent to which such reductions would negatively affect current and future military capability would depend on how the cutbacks were allocated among different types of acquisition and on external factors, such as the rate at which potential adversaries acquire more capable military equipment. Because the U.S. military currently enjoys a marked advantage in the quality of its weapons and, in most cases, an advantage in quantity as well, pursuing new technologies at a slower pace than planned might be accommodated without seriously compromising national security.

Preserve Funding for Major Weapon Systems and Reduce Funding for Other Acquisition Activities. In one approach, policymakers could preserve funding for the development and procurement of major weapon systems and make reductions in other types of acquisition. Because the largest amount of funding for acquisition, by a considerable margin, is allocated to major weapon systems, preserving its funding would require much larger cuts to funding for the other two subcategories (S&T and other acquisition). For example, reducing funding for acquisition by 13 percent in 2013—its proportional share under the sequestration if funding for military compensation is preserved—without affecting commitments for major weapon systems would require a 32 percent reduc-

tion in funding for S&T and other types of acquisition activities. Preserving funding for major weapon systems would become even more difficult later in the coming decade because, under the Administration's plan, that subcategory would grow more rapidly than the others. In fact, in dollar terms, the cost of major weapon systems is the single largest component of projected growth between 2013 and 2021 in the cost of DoD's plan (see Table 2-2 on page 21).

Although this approach would have the advantage of preserving funding for the emerging generation of new weapon systems, it could have disadvantages in both the short term and the long term. In the short term, planned improvements to existing systems might need to be scaled back or canceled. For example, the Air Force might have to curtail or cancel plans to improve the capabilities of its existing fighters—plans it has adopted in part because of delays in the F-35 program—even though existing aircraft are slated to remain in the force for many more years. Losing the flexibility to update those aircraft would result in the erosion of fighter force capabilities until F-35s are delivered in large numbers.

In the long term, disproportionate cuts to S&T funding or to other areas of research, development, test, and evaluation—particularly the development of advanced components that provide the technical foundations for weapon systems of the more distant future—could compromise the potential of future weapons. That outcome would be of concern if future adversaries presented military challenges to the United States that differ from those against which today's major weapon programs are oriented.

Preserve Funding for S&T and Other Acquisition and Reduce Funding for Major Weapon Systems. At the opposite extreme, this approach would take all acquisition cuts from major weapon programs. DoD's funding request for 2013 includes \$106 billion for major weapon systems spread over more than 100 programs. Using 2013 as an example, achieving a 13 percent cut to the acquisition budget category would require a 22 percent reduction in funding for major weapon systems if the other acquisition subcategories remained unchanged.

Cancelling or curtailing major weapon programs could allow for immediate reductions in appropriations because their associated contracts can be terminated at any time. (However, some contracts—multiyear procurement

contracts, for example—include monetary penalties for early termination.) Cancelling or deferring major weapon programs in the absence of force structure cuts has disadvantages, though. For instance, forces using existing systems would have less of a technological edge in combat than they might with new systems. Given the substantial technological advantage the U.S. military enjoys today, however, whether and when more advanced systems would have a practical benefit on the battlefield will depend on the extent to which potential adversaries will themselves opt to field more advanced weapons and how rapidly they will do so. Curtailing programs—by, for example, providing new weapons to only a portion of the force—could also yield savings. However, those savings would probably not be proportional to the cuts in purchases needed to obtain them because average unit costs might rise.

Retaining older systems could also drive up operations costs if more extensive maintenance was needed to keep them working properly. That was not a serious problem during the defense reductions in the 1990s because large quantities of new equipment had been purchased during the previous decade, and equipment that had not been replaced was simply retired as the force structure was cut. The situation today is different. Although DoD has modernized many of its weapon systems over the past decade—for example, many of the Army's ground combat vehicles have been refurbished to like-new condition and given new subsystems with improved capabilities since returning from Iraq or Afghanistan—many expensive systems (such as warships, fighters, bombers, and aerial tankers) are considerably older today, on average, than during the 1990s. Also, because the force structure reductions in current DoD plans are quite modest compared with the post–Cold War drawdown, concentrating newer equipment in the units that remain will have a less pronounced effect on lowering the average age of weapons in the force and, thus, helping avoid escalating maintenance costs.

It is not certain, however, that newer systems will have lower operating costs than their predecessors. Although age-related maintenance costs can be expected to rise over the life of a particular weapon system, newer weapon systems are usually much more complex, which can result in higher operations costs from the outset. (But the newer systems should provide greater capability for that higher cost.)

In some cases, canceling new systems and extending the service life of those that would ordinarily be replaced might not be possible or practical. For example, many of the fighter aircraft operated by the Air Force, Navy, and Marine Corps are nearing or have already exceeded their original design life and remain in service only because of generally costly life-extension programs or frequent inspections for age-related problems. Such measures eventually become too costly or too disruptive to operations to be worth continuing. Similarly, the service life of nuclear-powered ships is generally limited by the longevity of their reactors. In such cases, canceling a replacement program would be tantamount to a reduction in force structure unless other (presumably less costly) systems could be purchased instead. That option would exist, for example, if the F-35 program was canceled; the Air Force could instead purchase new F-15s or F-16s, which are still in production for foreign customers. Of course, purchasing an alternative system, even if it was less costly, would reduce net savings and might result in less military capability.

Reduce Acquisition Selectively. The “all-or-nothing” examples described above illustrate the extent to which cuts to various types of acquisition accounts could reduce overall defense budgets. However, an approach that preserved, curtailed, or canceled a mix of S&T programs or major weapon systems would probably be more successful in achieving national security goals. For example, policymakers could choose to deemphasize programs that are intended to provide near-term improvements to today’s technological capabilities (an area of significant superiority) and focus instead on developing weapon technologies for a more distant future. Such technologies could be critical if the United States was one day faced with so-called near-peer adversaries who posed greater military challenges than those presented today.

Policymakers could also elect to divest DoD of specific capabilities, enabling it to halt acquisitions in those areas. For example, the department might no longer maintain amphibious capabilities (whose primary mission is to transport Marine Corps units overseas and to deploy them ashore). Such an approach would allow DoD to cancel plans for new amphibious assault ships, dock landing ships, mobile landing platform ships, air-cushion landing craft, amphibious armored vehicles, and, possibly, the F-35B short take-off/vertical landing fighter (the Marine Corps’ variant of the Joint Strike Fighter).

The savings in shipbuilding alone would total about \$10 billion through 2021.¹⁰ As another example, policy-makers could decide to eliminate one or two legs of the nuclear triad—consisting of submarine-launched ballistic missiles, intercontinental ballistic missiles, and strategic bombers—and avoid the impending costs of developing and procuring replacements for those systems.

DoD might be able to contain overall growth in spending for acquisition without losing all of its capabilities in particular mission areas by pursuing major weapon programs more selectively. Several large programs have been canceled in the past few years because of technical difficulties, schedule delays, or escalating costs. For example, a recent study estimated that, since 2001, DoD has spent \$46 billion (in nominal dollars) on developing systems that were canceled before entering production.¹¹ That finding suggests that fewer acquisition dollars allocated more carefully could be sufficient to maintain the weapons superiority that U.S. forces have long enjoyed. Policymakers could also reduce the acquisition budget if they chose to upgrade existing systems or purchase more current-generation systems when possible rather than developing and building more advanced new (and usually more expensive) systems. For example, the Army could opt to upgrade existing Bradley infantry fighting vehicles rather than develop and build the new Ground Combat Vehicle.

Contain Cost Growth in Acquisition Programs. By 2021, annual real costs for the purchase of major weapon systems would grow by 34 percent under CBO’s cost projection but by only 16 percent under the FYDP-based cost projection. That difference does not reflect differences in program content but rather CBO’s estimate (based on weapon programs in the past) that the programs in DoD’s plans will ultimately cost more than the department currently estimates. Avoiding that potential cost growth would save an amount equal to the difference between CBO’s cost projection and the FYDP-based projection for the cost of major weapon systems—about \$110 billion from 2013 through 2021.

10. See Congressional Budget Office, *An Analysis of the Navy’s Fiscal Year 2013 Shipbuilding Plan* (July 2012), www.cbo.gov/publication/43468.

11. See Todd Harrison, *Analysis of the 2012 Defense Budget* (Center for Strategic and Budgetary Assessments, 2011), www.csbaonline.org/publications/2011/07/analysis-of-the-fy2012-defense-budget/.

In the past, however, DoD has found it difficult to avoid cost growth in its major weapon acquisition programs. Moreover, decreasing the quantity or rate of weapon purchases (as described earlier) would work against efforts to contain cost growth because economies of scale would be less pronounced; average unit costs tend to rise when annual production rates are lowered or fewer items are purchased. In fact, some such cost increases may be inherent in DoD's current plans. A comparison of the department's 2013 plans with earlier plans indicates that DoD has already deferred many purchases to just beyond its formal planning window. For example, 24 of the 115 V-22 tiltrotor aircraft that were to be purchased from 2013 to 2017 under 2012 plans were deferred until 2018 and 2019 under 2013 plans. Slowing production of weapon systems in the interest of further reducing annual spending would tend to increase the likelihood of continued growth in unit costs.

Reduce Operations Costs

A third way to roll back DoD budgets without cutting force structure would be to reduce funding for operations, which pays for everything that DoD does except the compensation of military personnel and activities related to acquisition. Operations funding is usually the first to be curtailed during a budget crunch because such reductions generate immediate savings. DoD has already announced that it will reduce operations to help meet the sequestration in 2013. Specific measures are expected to include furloughing civilian workers one day a week for the final few months of the fiscal year and keeping an aircraft carrier in port rather than deploying it to the Persian Gulf. Similar measures are likely to be implemented by all of the services.

Defining specific items to cut from the operations budget is difficult, however, because of the wide array of activities it encompasses. Consequently, CBO analyzed options in two broad subcategories (defined in Chapter 1): general operations—which makes up about two-thirds of the operations budget category for 2013 through 2021—and civilian compensation, which constitutes the remaining third.

Reduce Funding for General Operations. Reducing spending for general operations could be achieved in many ways. DoD could cut all operations by the same percentage, or it could focus on specific areas.¹² For example, reducing base operations might reduce the availability of certain services—such as facilities

maintenance, groundskeeping, dining hall services, or information technology support—or the timeliness with which they were delivered. Cuts to training might reduce the number of flight hours allotted to pilots for training each year or the number of large-scale training exercises that the service branches could afford to conduct.¹³ Cuts to maintenance might reduce the rate at which equipment could be repaired at depots, which would potentially increase any backlog of equipment awaiting repairs. Finally, cuts to administrative functions might force more efficient operations or the elimination of activities or services deemed to be of lesser importance. Some of those types of cuts might result in a military that was not as well-prepared for situations it could be called upon to confront; others might have little effect.

The magnitude of any effects would, of course, depend on what specific activities were eliminated or curtailed. In some cases (for example, eliminating redundant headquarters functions or mowing grass less frequently), cuts could be made with little or no adverse effect. In other cases, the effect of reductions would depend on how well-funded the activity is today. For example, cutting a few flight-training hours from an already well-funded program would have less adverse effect than eliminating the same number of hours from a marginally funded program. Alternatively, curtailing even important activities for a short period (months or a year) might not have a long-term effect on U.S. security. Although short-term reductions alone could not address DoD's long-term budget constraints, they could enable DoD to satisfy near-term caps and give longer-term cuts, such as force structure reductions, time to take effect.

-
12. The reductions discussed here would be distinct from those that might be possible as a result of the cuts to force structure discussed earlier. Although reductions in force structure would lower spending in the operations category because there would be fewer units and personnel to support, the pace of operations and level of support per unit would remain the same for the units still in the force, as would the degree of efficiency (or inefficiency) with which those services were provided. By contrast, the reductions in operations discussed here would reduce the operating tempo (activities such as steaming days for Navy ships and flying hours for the services' aviation components) of the units that remained in the force or the services provided to those units.
 13. For a discussion of how the services allocate resources for training, see Congressional Budget Office, *Models Used by the Military Services to Develop Budgets for Activities Associated with Operational Readiness* (February 2012), www.cbo.gov/publication/42986.

Cuts to operations might also limit the ability of the military to participate in ongoing activities that help enhance the standing or security of the United States around the world. Such activities include providing humanitarian aid, helping train the military services of friendly nations, maintaining presence in unstable regions, and conducting smaller-scale combat operations, such as interdicting pirates or the drug trade. Policymakers would have to make judgments about the importance of those types of activities (some of which are relatively inexpensive) in the context of U.S. foreign policy as a whole. As with activities internal to DoD, however, curtailing them for a short period might not have a long-term effect on U.S. security.

The services could also trim operating costs somewhat if they relied more on tiered readiness. Under that approach, some units would receive less funding for training and equipment maintenance and would not be required to meet the highest readiness standards. The Navy already uses that approach, and the Army has started to implement it; those two services could trim costs further by making more widespread use of the practice and increasing the number of units that are kept at lower readiness levels.

The cost of operations could be reduced without eliminating or curtailing activities if more efficient ways of conducting operations could be found. DoD has been aggressively pursuing such efficiencies for several years and continues to do so. Estimating the magnitude of potential savings would require a program-by-program analysis of DoD's operations. The department has already projected nearly \$200 billion in savings through 2016 as a result of its efficiency initiatives. (Those savings are reflected in the FYDP-based projection.) For example, the Air Force's Air Mobility Command has adopted improvements to flight planning for air cargo missions that are expected to provide significant fuel savings for peacetime logistical support.

Additional savings might be found, especially if budget constraints forced a choice between operating more efficiently but less conveniently and reducing the size of the force. For example, DoD could use cost savings as a primary criterion to maximize the savings from any base closures that it might ask the Congress to authorize. To lower costs, the services could also replace military personnel (who tend to be relatively expensive, when all forms of pay and benefits are considered) in administrative or support functions with civilians or contractors.

(Savings would be realized only if those military positions were eliminated from the force, but not if the military personnel were merely reassigned to other duties.) However, additional efficiency measures alone are unlikely to achieve the amount of savings necessary to satisfy the BCA's constraints.

Reduce the Cost of Civilian Compensation. Policymakers could also adopt approaches that would reduce the costs associated with civilian compensation. The department requested about \$72 billion for 2013 to compensate its 791,000 civilian employees (including about \$14 billion in funds accounted for in the military compensation and acquisition budget categories).¹⁴ Under CBO's cost projection, civilian compensation would keep pace with the ECI for total compensation and would grow in real terms by 13 percent through 2021. Under the FYDP-based cost projection—which combines DoD's assumptions about pay over the five-year FYDP period with growth at the ECI rate thereafter—civilian compensation would grow by about 6 percent through 2021.

The pay freeze implemented governmentwide over the past two years represents a cut in compensation after adjusting for inflation. Limiting civilian pay increases to the rate of inflation over the entire 2013–2021 period would result in pay that was 13 percent less than what would occur with increases linked to the ECI. Because the civil service system applies to most of the federal workforce, such changes have implications across all executive branch departments and agencies, not merely within DoD.

Furloughs, which could be tailored on a department-by-department basis, could be used to achieve relatively quick savings without technically cutting compensation rates. However, furloughs would probably serve only as a near-term measure for reducing costs until the civilian workforce could be permanently reduced in size, either through attrition or involuntary separations.

14. Civilians employed by DoD perform a wide range of functions, which the department divides into 18 broad categories. Some of the largest categories in 2012 included logistics (about 190,000 employees); force management and general support (about 125,000 employees); systems, acquisition, test and evaluation, engineering, and contracting (about 95,000 employees); personnel and social services (about 55,000 employees); and health services (also about 55,000 employees).

Long-term savings could be achieved by reducing the size of the civilian workforce. DoD has operated with about one federal civilian employee for every two active-duty service members, on average, for the past 40 years, a ratio of 0.5. (The ratio has ranged from a low of 0.46 to a high of 0.54.) Although quantitative data are elusive, it is widely believed that DoD has increased its reliance on contractor support (much of which is funded from the general operations budget) for many functions that could be (or had been) performed by federal civilian employees. The current ratio of federal civilians to active-duty service members in DoD is 0.53, near the 40-year high. Although the number of DoD's civilian employees has decreased since 2011, a further reduction of about 50,000 from today's civilian workforce would be necessary to push the ratio back down to its long-term average. A decrease of that size would save about \$5 billion per year by 2021 if civilian compensation costs increase as CBO projects.

For some tasks performed by civilians, increases in productivity per employee over time should have

reduced the number of employees needed to accomplish a given amount of work. For example, the advent and proliferation of desktop computers and other office information technology systems have reduced the number of employees needed to accomplish administrative tasks (although the need for information technology support staff would offset that somewhat). Other fields—for example, the civilian police protecting the Pentagon and military bases—have experienced an increase in personnel levels. If savings were to be realized by reducing the number of DoD's civilian positions, the activities those civilians perform would have to be accomplished more efficiently, or some of the functions carried out by the people in those positions would have to be reduced or eliminated. Merely shifting those jobs to contractors or military personnel would reduce or eliminate any savings and could even cost more, depending on how the change was implemented. Any examination of how to streamline or eliminate functions performed by civilians could be extended to functions currently performed by contractors, potentially yielding cost reductions in general operations as well.

Combinations of Approaches That Would Comply with the Funding Limits

The Congressional Budget Office explored four different ways in which policymakers could modify the Department of Defense's plans to ensure that its base budgets comply with the Budget Control Act's automatic reductions that went into effect in March 2013. The options incorporate cuts to the three budget categories CBO used in its analysis—military compensation, acquisition, and operations—in varying proportions. Options 1, 2, and 3 would strictly adhere to the lower yearly caps by reducing force structure, by decreasing per-unit funding for acquisition and operations, or by implementing some combination of those two approaches. Option 4 would rely entirely on reductions in the force structure but would be phased in over five years under a modified set of caps.

- *Option 1: Preserve Force Structure; Cut Acquisition and Operations.* This option would meet the annual BCA budget caps by reducing funding for acquisition and operations per unit, but it would make no reductions to force structure.
- *Option 2: Cut Acquisition and Operations; Phase in Reductions in Force Structure.* This option would shrink the force structure, which would enable DoD to make cutbacks in funding for military compensation, acquisition, and operations. In addition, the amount of funding for acquisition and operations for remaining units would be reduced. Cutting funding for acquisition and operations on a per-unit basis would account for most of the savings through 2017; decreases in force structure would account for half of the savings thereafter.
- *Option 3: Achieve Savings Primarily by Reducing Force Structure.* This option would meet the BCA caps primarily by cutting force structure. However, because

it would take five years to fully implement the cutbacks, additional reductions in per-unit funding for acquisition and operations would be made during the first few years.

- *Option 4: Reduce Force Structure Under a Modified Set of Budget Caps.* This option would rely solely on cutting force structure to reduce DoD's base budgets. Although the cumulative funding (in 2013 dollars) would be the same from 2013 through 2021, the BCA's automatic spending reductions would be modified to phase in over five years and allow a smoother—and, presumably, more orderly—transition to lower budgets.

CBO estimated the size of the cuts that would be required under each option using the two different projections of the costs of DoD's 2013 Future Years Defense Program plans discussed in Chapter 1: CBO's cost projection, which reflects DoD's recent experience with the growth in costs for military health care, military and civilian pay, peacetime operations, and weapon systems; and the FYDP-based cost projection, which reflects DoD's assumption that it can slow much of the growth in those areas.

To illustrate the change in force size that might result under Options 2, 3, and 4, CBO estimated the number and types of units that might be eliminated if budget reductions were spread among the service branches in the same proportion that their funding is currently allocated. CBO illustrates those reductions in terms of selected primary combat units for each service: brigade combat teams for the Army, major warships for the Navy, infantry regiments for the Marine Corps, and aircraft squadrons for the Air Force. CBO assumed that other types of combat and support units and overhead activities within each

service would also be cut proportionally. If the services were unable to cut support units and overhead proportionally, more primary combat units would have to be eliminated to achieve the required savings. In addition, CBO assumed that defensewide activities overseen by DoD but not associated with a single service—for example, activities of the Missile Defense Agency and the Defense Intelligence Agency—would experience funding reductions in the same proportion as the services.¹ In practice, DoD might distribute the reductions unevenly among the service branches and its other activities if lower funding levels or changes in the international security environment necessitated changes in the national security strategy.

Because the costs of implementing DoD's plans under both projections are estimated to grow faster than is allowed under the BCA funding limits (which rise only slightly faster than the estimated rate of inflation), the cuts required in 2021 are larger than those required in 2013. Indeed, even after adjusting to the budget reduction in 2013, DoD will have to cut back a little more (or find additional efficiencies) every year through 2021 to remain within the caps, primarily because the costs of compensation, weapon systems, and operations will grow faster than the caps.

Option 1: Preserve Force Structure; Cut Acquisition and Operations

Force structure would not be reduced under Option 1. Instead, annual appropriations for acquisition and operations would be reduced by equal percentages (see Figure 3-1).² Relative to CBO's cost projection, cuts to acquisition and operations would start at 13 percent in 2013 and steadily rise to 31 percent by 2021 to offset the growth in costs that CBO estimates will occur over that period in military compensation, acquisition, and operations. Cuts would reach only 20 percent in 2021 under the FYDP-based cost projection, which reflects an

1. Funding for the Defense Health Program to pay for the health care of military personnel who have already retired (and their families) would not be cut.
2. Similar alternatives could be constructed that would favor acquisition over operations or vice versa. CBO chose a proportional allocation of cuts to illustrate the general effects the cuts would have for each budget category. The size of those effects would vary, however, if the distribution of cuts between the two categories was changed.

assumption of slower cost growth. Over the entire 2013–2021 period, cumulative funding for acquisition and operations would be reduced by 24 percent relative to CBO's cost projection, or by 16 percent relative to the FYDP-based cost projection (see Table 3-1).

Option 1 would enable DoD to field the same number of military units called for under current plans. The effectiveness of those units, however, could diminish over time because less funding would be available for equipping, operating, and otherwise supporting the units. Because reductions could be taken in many different ways, it is not possible to predict specific outcomes: The extent of any decrease in effectiveness would depend on which purchases or activities had their funding reduced and whether DoD was able to carry them out more efficiently. General observations about how funding for acquisition and operations would differ from past trends can be made, however.

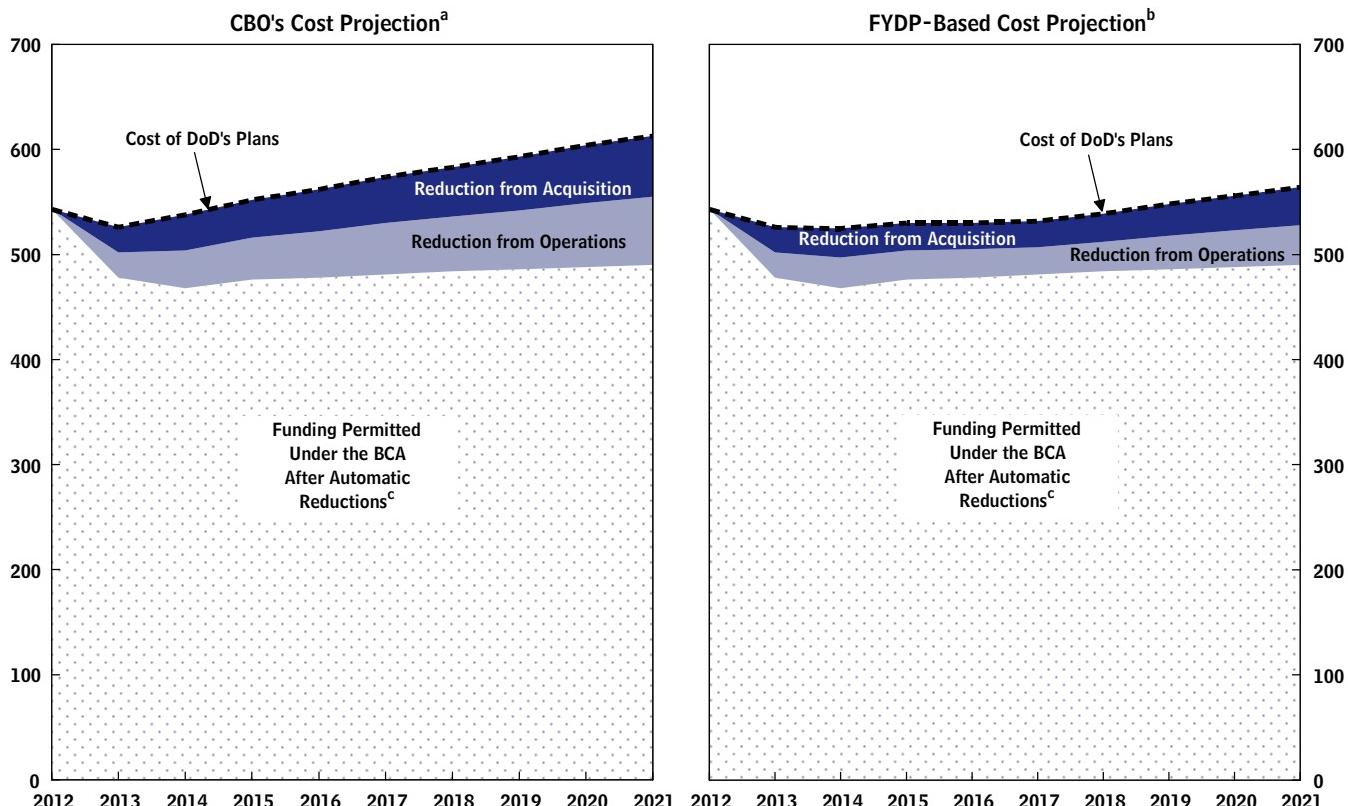
Funding for acquisition has exhibited much greater variability over the past 30 years, after making adjustments for force size, than has been the case for the other budget categories. Per active-duty service member, funding for military compensation and operations steadily increased over that period. In contrast, acquisition budgets fluctuated dramatically: They surged during the military buildup of the 1980s, shrank during the post–Cold War drawdown in the 1990s, and began to rise again in the mid-1990s (see Figure 3-2 on page 35).³

Although the cuts to acquisition under Option 1 would be steep relative to DoD's plans, in percentage terms their magnitude would not be significantly more dramatic than those that occurred just after the Cold War ended. The funding for acquisition per service member would be lower under CBO's cost projection than under the FYDP-based cost projection because larger decreases in such funding would be needed to offset the higher projected costs of military compensation. Nevertheless, funding for acquisition per active-duty service member under both cost projections would still be higher in real terms than was the case at the Cold War peak in 1985. However, the lower spending of the 1990s was facilitated by the purchase of large quantities of new weapons

3. The increase in per capita acquisition funding in DoD's base budget from 2002 to 2009 was in addition to substantial funding for weapon systems in the budgets for overseas contingency operations.

Figure 3-1.**Sources of Cost Reductions for DoD Under Option 1**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of such funding from 2002 to 2011.)

during the previous decade. In contrast, the spending surge of the early 2000s did not result in the fielding of substantial numbers of new systems, although large numbers of ground vehicles and helicopters for the Army and Marine Corps were rebuilt with funds for overseas contingency operations, making them like new in many respects. Indeed, the number of expensive systems (such as ships and aircraft) purchased from 2000 to 2009 was actually smaller than the number purchased during the relatively lower-spending era of the 1990s. Consequently, a prolonged period of constrained acquisition would

probably have different effects than those observed in the 1990s.

Funding for operations under this option would be below long-term historical trends on a per capita basis under both cost projections (see Figure 3-3 on page 36). As with funding for acquisition, per capita funding for operations would be lower under CBO's cost projection than under the FYDP-based cost projection. From 1980 to 2001, the last year before the beginning of the conflicts in Afghanistan and Iraq, funding in the operations category of DoD's base budget increased at a roughly constant rate of

Table 3-1.

Projected Reductions to DoD's Base Budget Under Four Options, by Budget Category

(Percent)

	Cumulative (2013 to 2021)				In Fiscal Year 2021			
	Option 1	Option 2	Option 3	Option 4	Option 1	Option 2	Option 3	Option 4
Relative to CBO's Cost Projection ^a								
Reduction from Cuts in Force Size								
Military compensation and operations	n.a.	8	16	18	n.a.	11	23	25
Acquisition	n.a.	5	10	12	n.a.	8	15	17
Reduction in Funding for Remaining Force								
Military compensation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operations	24	13	3	n.a.	31	15	0	n.a.
Acquisition	24	13	3	n.a.	31	15	0	n.a.
Relative to the FYDP-Based Cost Projection ^b								
Reduction from Cuts in Force Size								
Military compensation and operations	n.a.	5	10	12	n.a.	8	15	18
Acquisition	n.a.	3	6	8	n.a.	5	10	11
Reduction in Funding for Remaining Force								
Military compensation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operations	16	10	4	n.a.	20	10	0	n.a.
Acquisition	16	10	4	n.a.	20	10	0	n.a.

Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; n.a. = not applicable (because the option does not affect that category).

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

about \$2,000 per active-duty service member per year (after adjusting for inflation). Since 2001, however, operations costs per capita in the base budget have increased by an average of about \$2,300 per year. (The large operations costs associated with the wars should be reflected in OCO budgets, not in the base budget.) That increased rate of growth relative to the earlier historical trend could be the result of a variety of factors, including changes in the underlying economics of operations activities, ambiguity about how to separate funding for operations in the base budget from that in the OCO budget for the conflicts in Iraq and Afghanistan, or a general tendency to generously fund even base-budget operations when forces are involved in conflicts overseas.

If the latter two factors prove to be the predominant cause of the increase in per capita growth in operations costs over the past decade, upon the conclusion of major operations in Afghanistan and with the downward

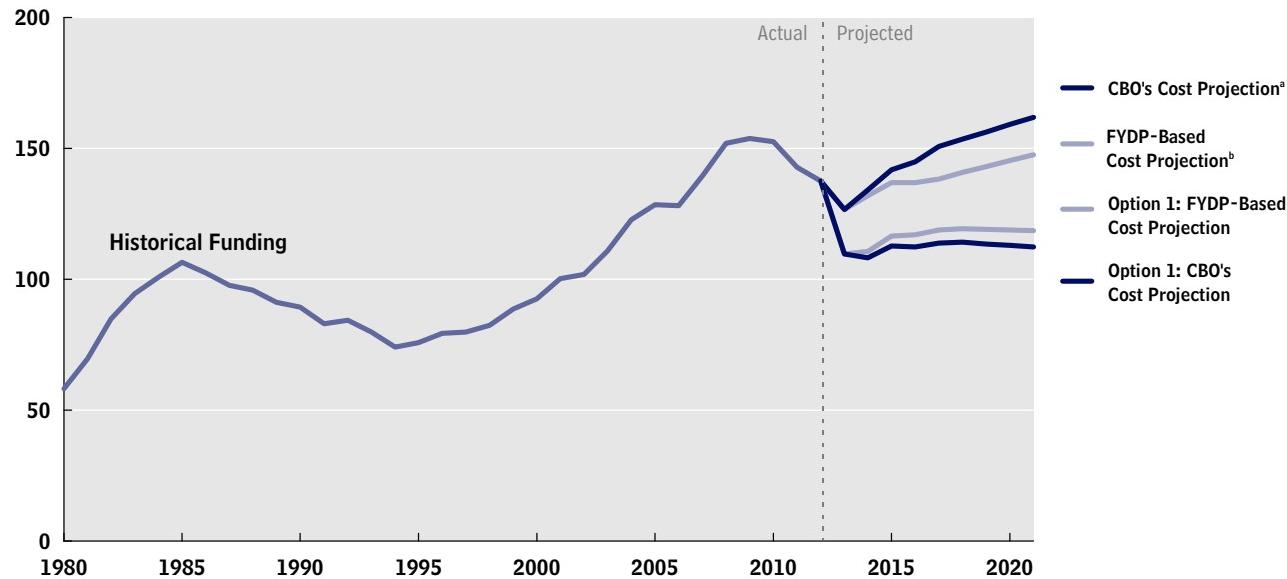
pressure of constrained budgets, the per capita cost to fund operations as currently planned could revert to amounts that would have been expected had the 1980–2000 trend continued. If that occurred, operations spending would be lower than estimated in both CBO's cost projection and the FYDP-based projection, and the reductions required to meet the BCA caps would be smaller. Reverting to costs that are consistent with earlier trends, however, would probably require an active effort to eliminate activities and services that might be desirable but not essential in a more austere funding environment.

Option 2: Cut Acquisition and Operations; Phase in Reductions in Force Structure

Option 2 would meet the constraints imposed by the BCA by combining reductions in force structure (which would entail cuts to all three budget categories) with

Figure 3-2.**Acquisition Funding per Active-Duty Service Member in DoD's Base Budget**

(Thousands of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2013 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

additional cuts to acquisition and operations. Specifically, it would derive half of the funding cuts required to satisfy the BCA caps after 2017 by cutting force structure and half by making additional cuts to funding for acquisition and operations. From 2013 to 2017, larger cuts would be made to funding for acquisition and operations as force structure cuts were phased in (see Figure 3-4 on page 37).

The force structure cuts would be in addition to the reductions already included in DoD's plans. Savings from the force structure cuts would come primarily from military compensation and operations; in addition, CBO assumed that funding for procurement (which is spread between the major weapon systems and other types of acquisition) could be reduced in proportion to force structure because fewer purchases of major weapons and smaller items would be needed to support a smaller force. Funding for research, development, test, and evaluation would not be reduced.

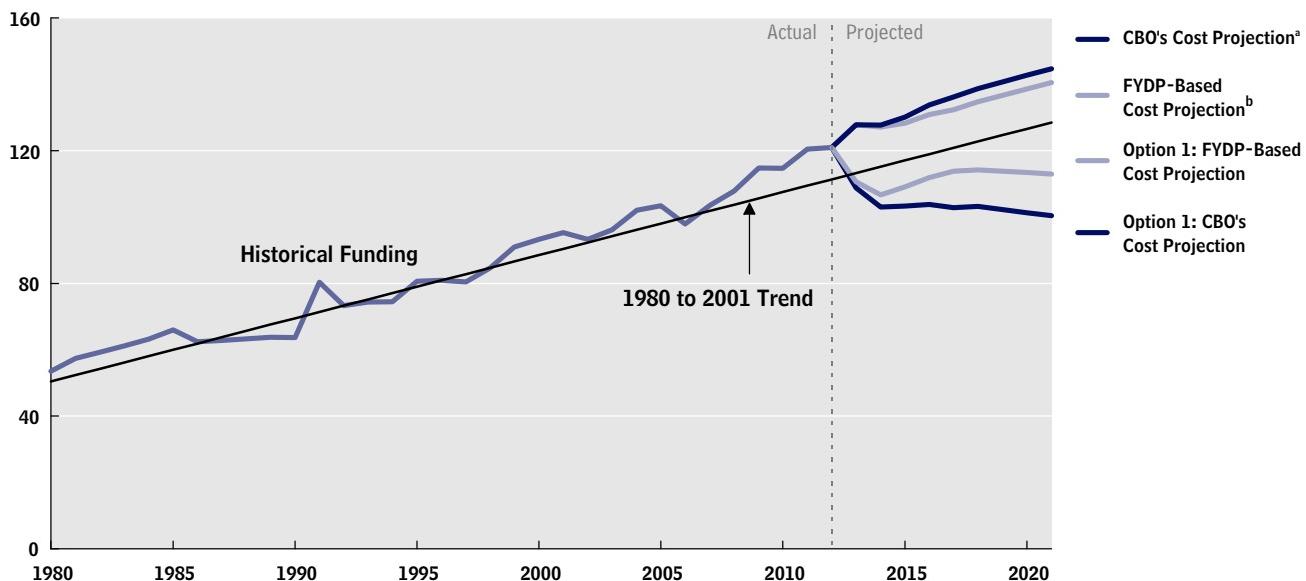
The cuts in force structure, as measured by reductions in funding for military compensation and operations, would reach 9 percent in 2017 and climb to 11 percent by 2021 under CBO's cost projection. (As a consequence of reductions in force structure, funding for acquisition would be reduced by 8 percent in 2021.) By 2021, funding for acquisition and operations for the military units remaining in the force would be reduced by 15 percent relative to DoD's plans under CBO's cost projection and by about 10 percent under the FYDP-based cost projection.

To illustrate the implications of the reductions in force structure, CBO estimated the number of units that would need to be eliminated under a simple drawdown strategy that spread the cuts proportionally among the services.⁴ Those estimates reflect the assumption that

4. Although the size of the cuts in dollars to each service are proportional, the reductions in the number of units are not always so because CBO assumed the elimination of whole units, and the savings from some types of units can be quite large.

Figure 3-3.**Operations Funding per Active-Duty Service Member in DoD's Base Budget**

(Thousands of 2013 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; DoD = Department of Defense.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2013 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

DoD would make proportional cuts to supporting units and overhead in the services and in defensewide activities, as discussed in Chapter 2. If DoD was unable to reduce the number of supporting units and spending for overhead proportionally by the end of the five-year phase-in, the cuts required to combat units would be larger.

Under Option 2, according to CBO's cost projection, the Army would have 59 brigade combat teams (BCTs), including those in the National Guard, 7 fewer than the number planned for 2017 and 14 fewer than the Army has today (see Table 3-2). The Army could maintain more combat brigades (a total of 61) under the FYDP-based cost projection. The Navy's fleet, under CBO's cost projection, would need to shrink by 28 major warships out of a planned force of about 244.⁵ The smaller fleet would include 1 fewer aircraft carrier (and carrier air wing), 14 fewer surface combatants, 4 fewer amphibious

ships, and 9 fewer submarines. Inventories of other types of Navy ships would be reduced in similar proportions. Two of the Marine Corps' 11 planned regiments (and their corresponding aviation components) would also be cut. The cuts would be smaller under the FYDP-based cost projection: 18 major warships and 1 Marine regiment.

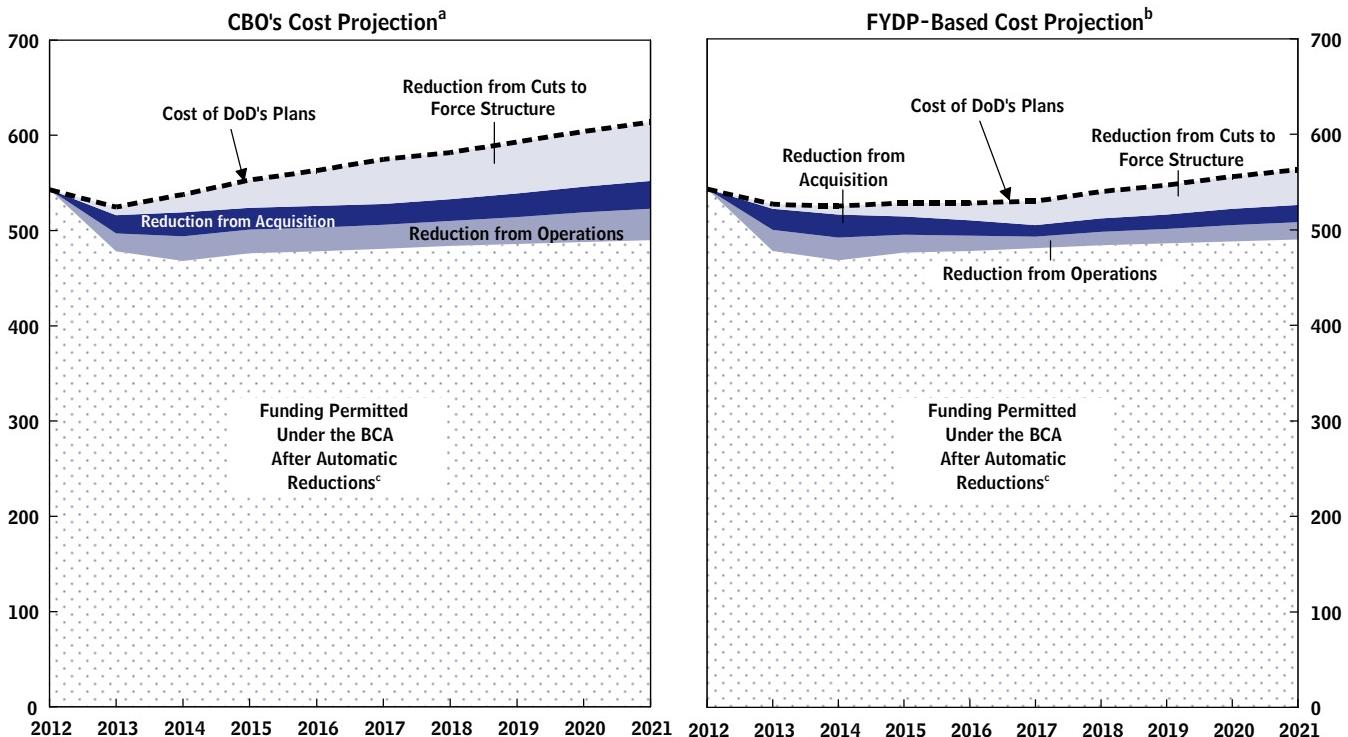
Under CBO's cost projection, the force structure of the Air Force would have to be reduced by about 12 percent relative to today's force (including active and reserve units). Those reductions might include 11 fighter squadrons, 1 bomber squadron, 3 strategic airlift squadrons, and 4 tanker squadrons (such reductions would be 7, 1, 2, and 3 squadrons, respectively, under the FYDP-based cost projection).⁶ Other types of Air Force units, such as tactical airlift and trainers, would experience similar reductions. Of course, the national security strategy in

5. Major warships include aircraft carriers, surface combatants, amphibious ships, and submarines.

6. Air Force unit numbers are based on aircraft inventories divided into notional 12-aircraft squadrons.

Figure 3-4.**Sources of Cost Reductions for DoD Under Option 2**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)

the future could call for a drawdown that does not spread cuts proportionally either within or across the services and DoD's other agencies.

By reducing force structure under this option, policy-makers would lessen the number of operations that could be conducted simultaneously and the size and duration of the operations that could be sustained. In the case of the Army, for example, every three active BCTs (or 5 National guard BCTs) that are eliminated reduce the ability to sustain one BCT that is deployed to an overseas contingency operation without exceeding DoD's policies

on the fraction of time service members should be away from home. But, compared with Option 1, those forces would be better trained, supported, and equipped.

The services could keep more units in the force under this option (but fewer in the active force) if they moved some active units into the reserves, because reserve units are less expensive to man and operate than active forces during peacetime. Although reserve units would require several months of intensive training, they could be deployed to overseas military operations to relieve active units if an operation lasted several years.

Table 3-2.

Reductions to Selected Portions of the Force Structure Through 2021, Under Options 2, 3, and 4

(Number of units)

	Approximate Number of Units in 2013 (After 2017)	Planned Force Structure	Option 2		Option 3		Option 4	
			Reduction Under CBO's Cost Projection ^a	Reduction Under the FYDP-Based Cost Projection ^b	Reduction Under CBO's Cost Projection ^a	Reduction Under the FYDP-Based Cost Projection ^b	Reduction Under CBO's Cost Projection ^a	Reduction Under the FYDP-Based Cost Projection ^b
			Under CBO's Cost Projection ^a	Under the FYDP-Based Cost Projection ^b	Under CBO's Cost Projection ^a	Under the FYDP-Based Cost Projection ^b	Under CBO's Cost Projection ^a	Under the FYDP-Based Cost Projection ^b
Army								
Heavy BCTs	24	20	2	1	5	3	6	4
Stryker BCTs	9	9	1	1	2	1	2	2
Infantry BCTs	40	37	4	3	9	6	10	7
Navy								
Aircraft carriers	10	11	1	1	3	2	3	2
Surface combatants	102	140	14	8	24	16	27	19
Amphibious ships	30	33	4	3	8	5	9	6
Submarines	72	60	9	6	16	11	19	12
Marine Corps								
Regiments (with aviation component)	11	11	2	1	3	2	3	2
Air Force^c								
Fighter squadrons	90	93	11	7	22	14	25	18
Bomber squadrons	10	10	1	1	2	1	2	2
Strategic airlift squadrons	21	20	3	2	5	4	6	4
Tanker squadrons	33	36	4	3	8	5	9	7

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; BCT = brigade combat team; DoD = Department of Defense.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. Numbers are based on notional squadrons of 12 aircraft each.

Option 3: Achieve Savings Primarily by Reducing Force Structure

Option 3 would rely primarily on force structure cuts to comply with the BCA. The reductions would be phased in by 2017, although the option would reduce force structure a little more each year thereafter to offset expected growth in costs for military compensation, acquisition, and operations (see Figure 3-5). Those cuts would be in addition to the reductions already included in DoD's plans.

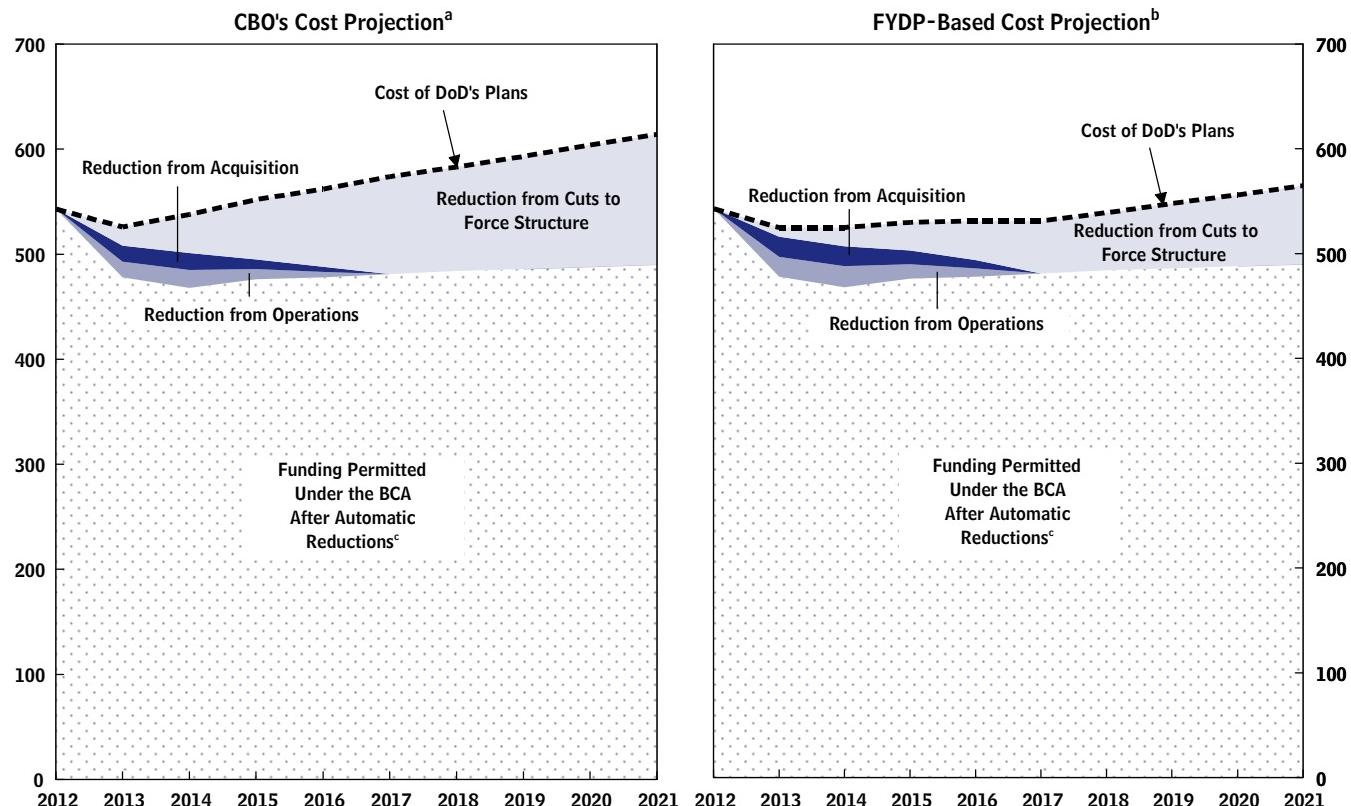
Because it would take several years to implement the full reductions in force structure, this option would comply

with the BCA in the early years (2013 through 2016) by making cuts to acquisition and operations in addition to those that would result from the force reductions. Under this approach, those cuts would be larger in the near term than would be the case under Option 2—about 8 percent in 2013—and funding would be restored rapidly so that the reductions over the 2013–2021 period would amount to only about 3 percent of the cumulative funding for those categories.

Under Option 3, the force structure would need to be reduced to accommodate an 18 percent cut to military compensation and operations by 2017 relative to CBO's

Figure 3-5.**Sources of Cost Reductions for DoD Under Option 3**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012.

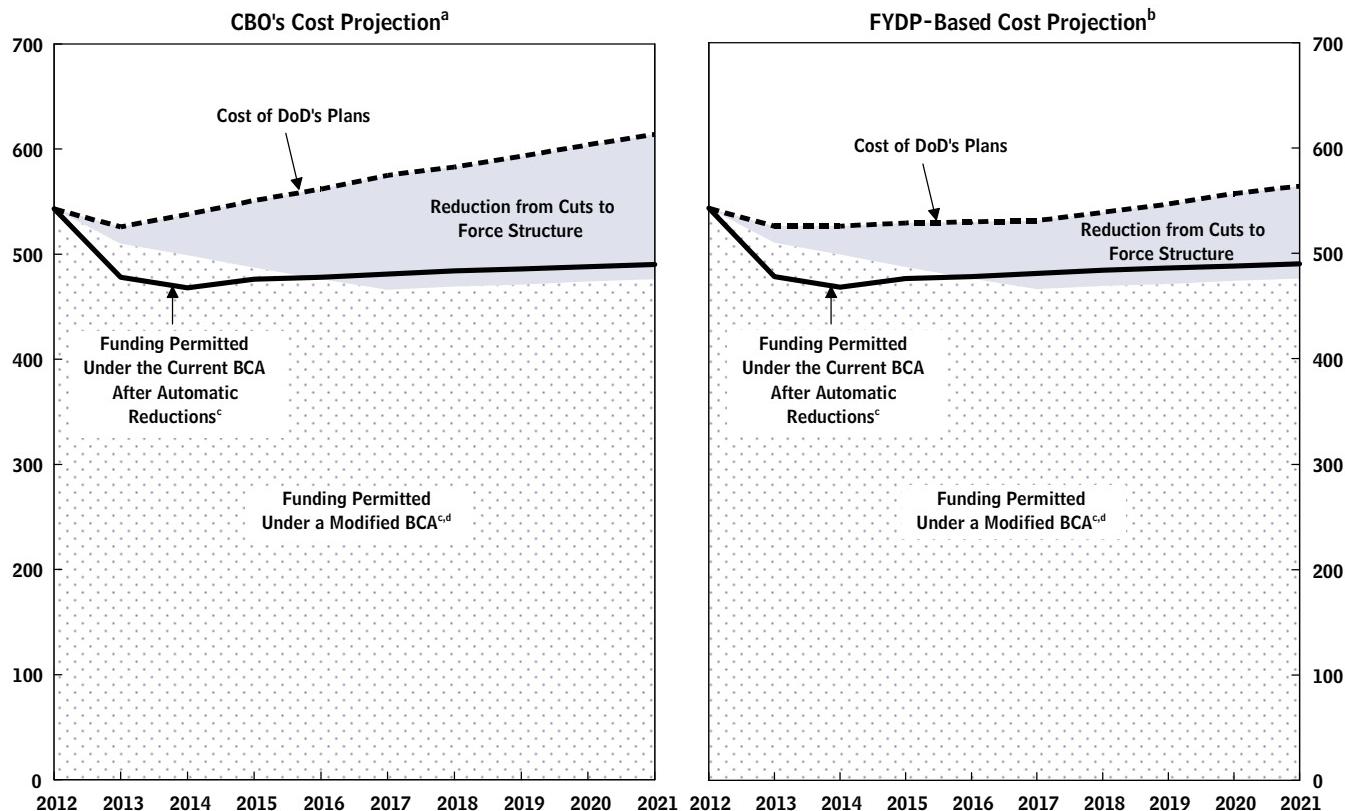
- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)

cost projection, rising to a 23 percent cut by 2021 to offset per capita cost growth in all three budget categories. Spread evenly across the services, those reductions would be roughly twice the size of those under Option 2: 16 Army BCTs, 51 major warships, 3 Marine Corps regiments, and 22 Air Force fighter squadrons (see Table 3-2). Force structure reductions would be smaller—equivalent to about 15 percent in military compensation and operations funding in 2021—relative to the FYDP-based cost projection.

Reductions in force structure alone, which spread reductions broadly across the entire defense enterprise, would help avoid the risk of ending up with a so-called hollow force—a force of impressive size but with inadequate equipment or training to be effective. Unlike cuts that merely postpone costs (in many cases to just beyond the budget-planning horizon), savings from force structure cuts would continue to accrue after 2021 and for as long as forces were held at the smaller size. However,

Figure 3-6.**Sources of Cost Reductions for DoD Under Option 4**

(Billions of 2013 dollars)



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012.

- a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.
- b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.
- c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)
- d. This option would phase in the automatic spending reductions more slowly but provide the same total funding (including automatic reductions) by making larger reductions in force size from 2017 to 2021.

U.S. military forces would be roughly one-fourth smaller than DoD currently plans, thus noticeably reducing their capabilities.

Option 4: Reduce Force Structure Under a Modified Set of Budget Caps

Under Option 4, all cost savings would be achieved by gradually reducing the size of U.S. forces over the next five years. To allow time for a phased downsizing of the

force structure without cutting spending for acquisition and operations, the BCA would be modified to provide the same cumulative funding through 2021 (in 2013 dollars), but the caps would be increased in the earlier years and lowered in later years (see Figure 3-6). To make up for the lesser savings achieved from 2013 through 2016, budgets in the years thereafter would be cut even more than is currently called for by the BCA's automatic reductions. Funding for military compensation and operations would need to be about 25 percent lower in 2021 than

under the Administration's plan according to CBO's cost projection or about 18 percent lower according to the FYDP-based cost projection.

Under CBO's cost projection, U.S. forces would be about 4 percent smaller than those under Option 3. The Army's combat force would shrink to 48 BCTs by 2021, 18 fewer than the number planned for 2017 if cuts to supporting units and infrastructure were also taken (see Table 3-2 on page 38). The Army could maintain 53 BCTs under the FYDP-based cost projection. Under Option 4 and CBO's cost projection, the Navy's fleet would have 58 fewer major warships than the Administration plans, a reduction of more than 25 percent. The smaller fleet would include 3 fewer aircraft carriers (and carrier air wings), 27 fewer surface combatants, 9 fewer amphibious ships, and 19 fewer submarines. Three of the Marine Corps' 11 planned regiments (and their corresponding aviation components) would also be cut. The cuts would be smaller under the FYDP-based cost projection: 39 major warships and 2 Marine regiments. Cuts to the Air Force under CBO's cost projection would include

25 fighter squadrons, 2 bomber squadrons, 6 strategic airlift squadrons, and 9 tanker squadrons. (The reductions would be 18, 2, 4, and 7 squadrons, respectively, under the FYDP-based cost projection.)

Option 4 would allow force structure reductions to be phased in without making the sharp near-term cuts to acquisition and operations needed under the other options. Additionally, the larger force structure cuts under Option 4 would offer greater savings after 2021 than would the other alternatives. But the number of operations that could be conducted simultaneously, and the size and duration of the operations that could be sustained by the U.S. armed forces, would be less after 2016 than would be the case with the other options examined by CBO. Also, making a larger share of the cuts later in the next decade would necessitate additional government borrowing in earlier years, which would increase interest costs and tend to increase interest rates and reduce investment in the broader economy, but those effects would probably be very small.

List of Tables and Figures

Tables

S-1. Projected Costs of DoD's Plans Compared With Funding Limits Established by the BCA	2
1-1. Funding for National Defense and DoD Under the BCA and Projected Costs for DoD's Plans	9
1-2. Cost Assumptions Underlying Two Projections of DoD's Plans	11
1-3. Projected Costs of DoD's Plans, by Budget Category	15
2-1. Projected Costs for Military Compensation and Operations, by Selected Units	19
2-2. Projected Growth in Costs Under DoD's 2013 FYDP, by Budget Category	21
3-1. Projected Reductions to DoD's Base Budget Under Four Options, by Budget Category	34
3-2. Reductions to Selected Portions of the Force Structure Through 2021, Under Options 2, 3, and 4	38

Figures

S-1. Projected Costs of DoD's Plans Compared with the BCA Caps	3
S-2. Sources of Reductions from CBO's Projection of the Costs of DoD's Plans Under Four Options	5
1-1. Past Funding for DoD's Base Budget and the Effect of the BCA Caps on Projected Funding	8
1-2. Projected Costs of DoD's Plans and the BCA Caps Before and After Automatic Reductions	12
1-3. Funding Requested for DoD's 2013 Base Budget, by Appropriation Title and CBO Budget Category	13
2-1. Annual Percentage Increases in Military Basic Pay	22
3-1. Sources of Cost Reductions for DoD Under Option 1	33
3-2. Acquisition Funding per Active-Duty Service Member in DoD's Base Budget	35
3-3. Operations Funding per Active-Duty Service Member in DoD's Base Budget	36
3-4. Sources of Cost Reductions for DoD Under Option 2	37
3-5. Sources of Cost Reductions for DoD Under Option 3	39
3-6. Sources of Cost Reductions for DoD Under Option 4	40

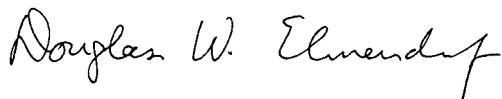
About This Document

T

his Congressional Budget Office report was prepared at the request of the Chairman of the Senate Committee on the Budget. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

David Arthur of CBO's National Security Division performed the analysis under the supervision of David E. Mosher and Matthew S. Goldberg. Adam Talaber analyzed the costs to operate individual military units. David Berteau of the Center for Strategic and International Studies and Cindy Williams of the Security Studies Program at the Massachusetts Institute of Technology provided thoughtful reviews and helpful comments. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.)

Loretta Lettner edited the report, and Jeanine Rees and Maureen Costantino prepared the report for publication. An electronic version is available on CBO's Web site (www.cbo.gov).



Douglas W. Elmendorf
Director

March 2013

